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ENGINEERING BRAND LOVE

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# **A CHANNEL CONFLICT TRUCE**

POINT OF VIEW

**HOW DIRECT-TO-CONSUMER OFFERINGS  
BENEFIT BOTH BRANDS AND RETAILERS**

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# A CHANNEL CONFLICT TRUCE

## HOW DIRECT-TO-CONSUMER OFFERINGS BENEFIT BOTH BRANDS AND RETAILERS

### SUMMARY

The Shipyard has a new take on how selling direct-to-consumer (DTC) benefits not only brands who do so, but also the retailers they do business with.

- Retailers traditionally thought CPG brands that sold their products DTC created a channel conflict, but this mindset overlooks the knowledge CPG brands gain through direct customer relationships, which helps both parties.
- Brands that first launch a product via the DTC channel actually provide retailers more confidence that the brand team knows what is appealing about it, thereby reducing risk.
- With the increase in digital engagement during the COVID-19 pandemic, the opportunity to build direct relationships with customers online has never been more important.

### WHY THIS MATTERS

Building direct relationships with customers gives brands valuable first-party data that can be used to make retailers more confident in carrying the brand's products and help in the development of new products. The Shipyard helps brands capture, leverage and extract actionable insights from data that enables more relevant and motivating creative messaging, engages consumers at scale, and drives exponential growth.

### TAKEAWAYS

- The threat of channel conflict when a brand conducts some of its business through DTC channels is somewhat misplaced, as today retailers are likely to be much more threatened by the likes of Amazon than they are with smaller, direct channels.
- Brands can also use their DTC channel to inform product launches, using the insights they gain to bring new offerings to more channels.
- The first-party data brands obtain through DTC not only enables greater opportunities with retailers—it is also increasingly valuable because of the hegemony of walled gardens, and the slow death of cookie tracking.
- Even brands who are not set up to pursue direct sales relationships with consumers can find ways to more deeply interact with customers, by -- for instance -- leveraging loyalty programs and helping consumers who are showrooming in retail establishments.

### THE FULL STORY

In the early days of e-commerce, manufacturers were strongly dissuaded from selling direct out of fear of upsetting relationships with their retail partners. Competing for sales with retail partners was a threat and deemed “channel conflict.” Additionally, selling online was a complicated endeavor, so manufacturers were happy to leave it alone.



Today, however, retailers are much more worried about the threat that Amazon and other major online e-commerce channels bring to their business — Amazon alone controlled 37.3 percent of U.S. eCommerce market share in 2019 according to eMarketer. By comparison, direct sales are relatively insignificant on an individualized basis for most products and most major retailers remain confident of their value proposition of conveniently selling multiple products to their customers. And many omni-channel retailers offer free shipping thresholds that individual manufacturers can't offer as easily.

The shifting needs of brands, retailers, and the digital marketing landscape itself make it an advantageous -- and maybe even strategically necessary -- time to consider building a DTC offering. Here are some tips from the Shipyard on how CPG brands can reframe their thinking and get started on selling DTC.

### THREE BENEFITS OF BUILDING A DTC OFFERING

1. **Access to precious first-party data.** Simply put, selling directly to consumers enables a two-way dialogue with your customers, creating first-party data along the way -- and this is not only an engaging and mutually valuable interaction, it is also an increasingly worthwhile endeavor during a time of walled gardens, and a time when the cookie tracking is dying. First-party data is most potent when being activated at an individual level, where brands can create heightened relevance through more personalized experiences via dynamic content that drives a highly tailored customer journey. On an aggregate level it is valuable as well—such selling can reveal patterns of individuals clustered together into small segments that can be served with micro-targeted campaigns tailored to these consumers' specific needs.

Aggregate customer data can also provide a macro view on customer preferences—consider it your own personal, realtime, 24/7 research platform that allows you to understand your customers more intimately than ever before. You'll know what your consumers do (and not just what they say, which can often differ). The ability to interpret first-party data to generate actionable insights and activate on the data in-market to reach these precise individuals through programmatic media makes this information infinitely more valuable than that culled from traditional consumer surveys.



2. **Brands that have deep consumer insights are more attractive to retailers.** This unique data-driven insight is exactly what retailers need in order to drive their own business success. That's why brands that know how to sell directly are much more valuable for retailers — because they come to the retail relationship already knowing inherently the “when” and “why” of each product’s selling proposition. Altogether, this information creates the all-important “how” to move products off shelves.

It should be noted that historically, marketers haven't come to the party empty-handed—they have always shared attitudinal research with retailers. But what they can provide through their DTC knowledge goes way beyond by demonstrating their understanding of directly meeting customer needs. They are providing retailers with the kind of data they rely on more: behavioral shopper and loyalty data which they usually cull from their own stores (and most often, keep to themselves).

Consider how much more powerful your attitudinal research will be when it includes transactional behavioral sales data to close the gaping disparity between what consumers say (i.e., purchase intent) versus what they actually do (i.e., make a purchase). As retailers recognize this value, they will favor brands with transactional data over less predictive stated preferences.

Such research and data build The Shipyard's “Digital to Retail Success Loop,” which illustrates to retailers why the DTC relationship is so important for them. CPG marketers contribute to the loop by demonstrating a convincing capability to identify, reach and convert customers through their own channels, allowing them to build better credibility with retailers. This gives the retailer confidence to distribute the product and increase its shelf real estate to ultimately drive more growth.



**DTC Sales Accelerates  
Overall Growth**

**Driving Traffic  
to Retailers**

**Insights into  
Each Segment**

**DIGITAL TO RETAIL  
SUCCESS LOOP**



**Distribution  
Gains**

**Capability to  
Reach and Sell**

**Build Credibility  
with Retailers**

**DIGITAL TO RETAIL SUCCESS LOOP**

- 3. Building a DTC offering can be a great way to test the market,** and messaging. Most CPG brands pre-test creative assets with traditional research, opting to wait until they achieve 50 percent of their distribution goals before turning on the tap for a big launch media moment to support retail sales. Yet, given that copy testing research data is less predictive than behavioral data, a tremendous amount of risk is associated with this traditional approach.

Offering your brand online can create a more confident, behavior-led approach that allows you to get into market, test both messaging and audiences, optimize campaigns, and determine the most efficient way to scale before substantial media outlay. A series of low-spend, structured experiments thus reduces risk and conserves funds to focus the majority of resources on scaling only those tactics that are proven to perform best. Indeed, this can even occur in parallel to the retail distribution build, so that by the time a CPG brand might normally turn on media -- upon achieving 50 percent distribution -- it is assured that it has a successful marketing program in hand. Here are two case studies that illustrate these benefits.

# **CASE STUDIES**





# WELEDA

Seit  1921

## WELEDA LAUNCHES NEW PRODUCTS ON DTC FIRST

Weleda N.A., a subsidiary of the Switzerland-based progressive European natural beauty brand, launches every new product on its own e-commerce DTC site before distributing to retail shelves. The result? Consistently successful product launches along with double-digit growth in retail distribution and turnover.

### SHOP OUR BEST SELLERS

Revive your skin and create a self care routine with our most loved products.



**Awakening Oil**  
Concentrated moisture loaded with precious plant oils for visibly smoother skin



**Skin Food with Free-Travel Size Mini**  
The ultimate moisturizer for dry, rough skin



**Salt Toothpaste**  
Fluoride-free toothpaste with sea salt and gentle mineral cleansers



**White Mallow Gentle Moisture Set**  
Moisturize Baby's Sensitive Skin with Soothing Mallow

As Randi Jachino, the vice president of marketing at Weleda has explained, the company doesn't have huge launch budgets, making it imperative to be uber-efficient in how the money is spent. By launching online first on Weleda's own web shop, she noted, "it's possible allows us to learn while we earn without breaking the bank." Then The Shipyard turns on the tap full throttle with confidence that every dollar its spending is doing its job to support retailers.

Weleda has also found that retailers respond very favorably to gaining access to real-world DTC sales data. "Real sales data is the most convincing sales tool we have, as that's what retailers use every day to run their own business," explained David Laugen, Weleda vice president of sales. The company recently dealt with a major retailer that didn't take one of its new products at first, but changed its mind after seeing Weleda's DTC sales data, placing an order for the next cycle."

Going forward, Weleda sees even more ways of partnering directly with retailers for future launches.



## SCOTSMIRACLE-GRO

### USES DTC MARKETING TO FIND NEW AUDIENCES AND REDUCE COST-PER-ACQUISITION

In looking for new growth, Ohio-based gardening brand Scotts, a leading American provider of lawn care products, leaned into DTC marketing to find scores of new audiences for its Miracle-Gro brand, using first-party data to predict which consumers would be most responsive to which SKUs and messages.

First-party data made it possible for The Shipyard to craft hundreds of creative assets across five story angles to learn who the hand-raisers for each product really are. Each story line featured a custom landing page and e-commerce experiences. When it comes to their lawns, homeowners have many different motivations. Some are motivated most by a beautiful lawn that allows them to enjoy the outdoors with their families. Some just want to avoid problems (weeds and patches). Others are motivated by how they would be perceived by their neighbors. Messages were tailored accordingly -- increasing the relevancy of campaigns by leveraging the messages that were most motivating to each audience segment. Through prospecting and retargeting, The Shipyard optimized biddable and social media, and creative formats far beyond benchmark engagement rates. It optimized purchase paths, message sequencing, cart abandonments and retargeting offers.

Scotts and The Shipyard increased its DTC business exponentially, lowered the DTC cost per acquisition by more than 60 percent, while also driving significant incremental retail sales (e.g, offline big box retailers, etc.) in a mature gardening market.

Ultimately, your Brand.com site needs to have a clear role to get consumers to interact directly and differently than in instances where they might purchase your products at a retailer. While DTC won't be a fit for all CPG brands, determining how and what first-party data to collect and analyze is key for future growth. To that end, consider how your brand site talks to its consumers — both functionally and emotionally — and better yet, how it listens.





## HOW TO BUILD A DTC RELATIONSHIP WITHOUT TRANSACTIONS

If you can't sell directly, the good news is you can customize off-the-shelf SaaS (Software as a Service) digital products that can be integrated into your website - without even writing code. Some players in this space are Jebbit, Qualtrics, and Typeform.

For instance, online product selector tools can help consumers navigate a sea of product options to find what's best for them, ultimately leading to a better product experience and higher repeat rates. These tools are the ideal shopper marketing tactic when consumers tap into their mobile phones for help while standing in the aisle to make a decision. Of course, the data from a product selector provides critical lower funnel feedback, even for companies that do not offer a transactional DTC function.

Even easier, virtual engagement online can also be an important data collection mechanism, through quizzes and polls that provide valuable “zero party” data, in which a consumer proactively gives data to a brand. Loyalty programs can also reward repeat customers, giving them special access to new products, serving as virtual advisory boards, and encouraging referral and social sharing. And finally, ratings and reviews feature both create valuable data for the brand and are helpful sources of information for many consumers.

## RE-FRAMING THE CHANNEL CONFLICT STORY

The time is now to reconsider how CPG manufacturers and retailers view DTC selling — to see it as a way for both sides to work more closely with better data that instills more confidence in how products are brought to market. Especially as e-commerce has ramped up during the pandemic, it's a time to listen to what your consumers have to tell you. Be the one they tell, and you'll have an incredibly valuable story to share with your retail partners.



ABOUT THE AUTHOR

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THE SHIPYARD

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Lance leads The Shipyard’s D2C Growth Engineering Consultancy, which brings data and creativity together to drive growth for clients. Lance is a seasoned marketing strategist focused on implementing “Next Practices” – the most effective marketing practices of tomorrow including having co-founded a Marketing Futures AdTech Consortium that was acquired by The Shipyard, built the first Premium Programmatic Media conference, fought the rampant Bot Fraud. Lance consults on Digital Marketing and Transformation engagements for The Shipyard clients such as Weleda, Mars, Bollé, Dick’s Sporting Goods, BrewDog, NCR, CO-OP Financial Services amongst others.



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The Shipyard is the world’s first “Marketing Engineering” Agency. Data geeks and strategists working side by side with storytellers and artists to grow your business. By harmonizing millions of data points, we create a deep, personalized understanding of your consumers to predict their behaviors and aspirations. Our test-and-learn approach allows us to repeatedly deliver courageous marketing that is compelling, effective and measurable. Our work consistently results in growth for our clients with higher acceleration and lower costs than virtually anyone in the industry. The Shipyard serves iconic brands such as In-N-Out Burger, American Electric Power, ScottsMiracle-Gro, Weleda, Protective Insurance, Bollé, NCR, BrewDog, Sempra, Nationwide and CO-OP Financial Services.



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