

MODERN RETAIL

# Customer loyalty, pricing parity, cost: why D2C has grown more relevant in the post-pandemic world



Synopsis

The pandemic gave rise to the popularity of D2C as a retail channel. While many brands are focusing on having a presence across channels, D2C stays relevant even in the post-pandemic world as it helps brands reach the INR 100crore revenue-mark quickly, save on costs, and cultivate brand loyalty.

The direct-to-consumer(**D2C**) channel has been in existence for decades. But it was the pandemic which put it under the spotlight.

As physical stores stayed shut amid prolonged



BY

Shabori Das

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lockdowns and e-commerce was the only functioning retail channel, brands quickly started to adopt the D2C model.

To be sure, most digital-first brands in India started off their journey with D2C and marketplace retail sales. However, the true potential of D2C — or the business model of selling products directly to customers — was realised only during the pandemic years as it was the only channel which was the equivalent of online brand outlets.

According to a recent report by the Confederation of Indian Industry (CII), “Online sales through brands’ app and website, social media pages, and inclusive of both traditional and D2C brands” is sized at USD5 billion in FY22. This market is expected to register a compounded annual growth rate (CAGR) of 35% to reach USD22 billion by 2027.

Vinay Singh, co-founder of early stage investment firm Fireside Ventures, points out that the D2C channel in today’s day and age is not just the online EBOs (exclusive brand outlets). “You could call it the online lab as well. It is the only channel apart from a physical EBO, which allows brands to collect information regarding their consumers, and that information and consumer data is imperative for growth,” he says.

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However, as we move away from the pandemic years, one can see that most digital-first brands are now focusing on expanding their offline presence.

Irrespective of the category — from beauty and personal care to apparel and fashion to food and beverages to even electronics — most companies

including audio and wearables brands like **Lifestyle**, **SUGAR Cosmetics**, and Plum Cosmetics are all focusing on expanding their offline businesses.

While D2C as a channel allows brands to set up shops with minimum business entry resistance, offline retail is where brands grow to become a household name.

Does it mean that in the post-pandemic world, D2C channel will lose its relevance?

Let's find out.

### **Hitting the INR100-crore revenue mark**

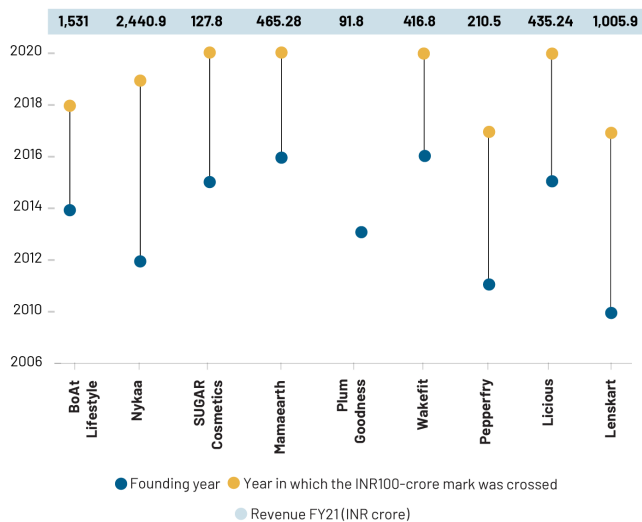
For any brand to become a household name with a high frequency of repeat purchases, a presence across all offline retail channels is imperative. One of the primary strategies that all consumer brands agree upon and are working towards is having an omnichannel approach. Presence across different retail channels is pertinent for 'different stages' of growth for a brand.

"The reason why D2C is important, and will continue to be so, is the role it plays, especially for most of the new-age digital-first brands. For a company to enter the retail scenario using D2C channel makes a lot more sense as the entry barrier is negligible. If you have a brand website or app, you have your primary point of contact with consumers. And most importantly, you have the data and hence can have targeted communication," says Singh.

He believes that for a brand to grow to the INR100 crore-mark in revenues, D2C will be the key. But he also agrees that the development and reach of the brand will change in various phases of its trajectory.

Much before e-commerce became popular, most consumer brands took at least a decade or more to touch the INR100 crore-mark in terms of revenues. One of the first things that D2C changed for brands was this time frame. A growing base of smartphone users coupled with cheap data is likely to further shorten this duration. Most of the digital-first brands of the country took half that time to reach INR100 crore in revenue.

### Brands which crossed INR100 crore in revenue with the help of D2C



Note: Mentioned brands have presence across all retail channels inclusive of D2C and EBOs.  
Source: Toffler ETPrime

Kaushik Mukherjee, co-founder, SUGAR Cosmetics, says, “The pandemic has completely blurred the lines between online and offline channels. Earlier, D2C was opted by only digital-first brands. Now a lot of legacy companies are following the same route”.

According to Mukherjee, the prioritisation in terms of channel focus has changed a lot over the years for the Mumbai-based cosmetics brand. The brand is present across all retail channels, except travel retail (airport kiosks), which Mukherjee says will happen over time. “We realised that a customer switches between channels. Therefore, for the repeat customers, who are your loyalists, you want to make the shopping experience seamless. You don’t want to confuse the customer in terms of whether they will get a better deal on Amazon, D2C, or at a store,” he adds.

According to the CII report cited above, while the number of smartphone users as of 2021 was 750 million, this rose to 830 million. The number of online shoppers was 190 million in 2021. By 2030, the number of smartphone and Internet users is expected to grow to 1.3 billion while the count of online shoppers is expected to touch 500 million.

Therefore, the market potential is very high.

In addition to this, the primary consumer base for digital-first brands in India is the millennials and Gen Z who spend a lot of time on social media.

One of the primary disadvantages of a D2C-only brand is discoverability. Online marketplaces such as Amazon, Myntra, and Nykaa help consumers find new brands either with the help of search engine optimisation or marketing tools within the category search with the help of banners and more. Either way, coming across a new brand and trying it out (as the consumer trusts the retail channel) is much easier using marketplaces.

However, digital-first brands are engaging with their target audience with the help of focused content which allows them to have followers on social media channels, which in turn makes even first-time consumers feel confident about shopping from these D2C channels. Therefore, once the brand and consumer have come in contact, chances are that the consumer will place her next order through the D2C channel, app, or the brand's social media page.

“We get a lot of conversions from Instagram — as in when people see our profile and see 2.4 million followers, they automatically feel we are trustworthy. Instagram has compounded to a point that it has the best conversion rate for us,” says Mukherjee.

### **The importance of repeat customers**

The intent of any shopper who walks in to an EBO store of a brand is the highest. The consumer knows they want to purchase that brand, and the entire order value, across categories will be generated by the same brand. This is one retail touch point which is perhaps the most sought after by all consumer brands as one gets data and the shopping behaviour of consumers directly.

D2C offers the same scope online with a lower setting up cost.

D2C channel primarily has three members in its value chain. The product goes from the manufacturing plant to the warehouse and then directly to the consumers.

While walking into a store is sometimes organic, depending on the location of the store (malls or high street), visiting a D2C website directly is rarely so. In fact, consumers who prefer buying from D2C channels are mostly repeat customers. And this is the consumer base that every brand focusing on to retain and grow while constantly trying to acquire new consumers via other channels.

Further, the cost of acquisition of a consumer is often higher (which varies between different consumer categories) as compared to the D2C channel as it requires specific and targeted advertisements.

D2C focuses on targeted advertising with the help of Instagram, YouTube, Facebook, and Google while marketplaces and offline channels focus on SEO (search engine optimisation) and more traditional advertising mediums such as the print and television.

One of the primary reasons why the relevance of D2C will continue to be strong in the post-pandemic world is the nature of the consumers that most of these digital-first brands are targeting.

As mentioned above, D2C shoppers are also repeat customers of a brand. For boAt Lifestyle, for example, the repeat frequency among shoppers is one year. Typically, half of its consumers are replacing headphones once every 12 months while one-fourth are repeat customers. Moreover, 35% of its audio consumers are also buying smartwatches.

**Vivek Gambhir**, CEO of boAt Lifestyle confirms that repeat rates are slightly higher on D2C channel than others. “Currently we have 25% of our sales coming in from offline channel and 70% from marketplaces like Amazon and the remaining 5% from our D2C channel. The cost of acquisition will always be higher in D2C because a consumer is mostly buying only one category from the D2C channel. Typically for a consumer, when they go on Amazon or Flipkart, they end up buying multiple categories.” says Gambhir.

While the marketing costs for any new-age brand using marketplace is nearly 20%-25% of the total sales generated from the channel, the cost of acquisition of a new consumer is always lower via these channels as the new brand is part of the shopping basket and not the only brand in it.

According to Gambhir, 17%-18% of boAt's sales is marketing costs. “All our marketing is digital. We invest primarily behind Instagram, Snapchat, Facebook, Google, and the platform advertising on the marketplaces. Therefore, there is no offline marketing component beyond a little bit of merchandising and point of sale kinds of investment.”

SUGAR Cosmetics' Mukherjee says that a brand does several things while trying to drive footfall into offline

stores. “You are doing mall branding, billboard branding, you want to apportion a part of your expenses to newspaper and television commercials as well — and this number cannot be apportioned only to one category though as television advertising will impact my overall sales and not just one retail channel.”

Currently for SUGAR Cosmetics, 15%-20% of its total revenue is marketing costs.

According to Ayushi Gudwani, founder of FS Life, a new-age online apparel company, the average order value from its D2C channel is currently is INR3,800- INR4,000. This had gone down to INR3,100 during the pandemic. Gudwani says about 45%-50% of the company’s customers are repeat shoppers. “The frequency of purchase from our D2C channel is nearly 2.5 times a year and the average order value for our repeat customers is generally higher than that of first-time buyers,” she says. The brand is currently only available online and via marketplaces besides its own D2C channel.

### **Ensuring price parity**

Generally, the average order value for brands varies drastically between an MBO (multi-brand outlet) or EBO channel irrespective of whether it’s online or offline. While most brands cannot comment on MBO average order values as they do not have the data, they are practicing price parity across channels to make the shopping experience seamless for both first-time and repeat customers.

“A lot of new-age brands will go on marketing campaigns such as ‘2+1 free or get 40% off’ if you buy from a specific channel. But if you haven’t established your brand as something worthy that the consumer would need or want, even if you give it to them for half the price, it’s still not worth it,” says Mukherjee, who prefers to maintain the same price for SUGAR’s products across channels.

As of September 2022, 55% of SUGAR’s sales were generated via the offline channel. Out of the remaining 45%, 50% sales come from its own website and app, and 50% comes from Nykaa, Myntra, and Amazon among others.

Mukherjee confirms that the current average order value for SUGAR Cosmetics stands at INR1,350 via both its D2C and assisted sales channels such as large

format stores.

Gambhir of boAt Lifestyle concurs. "Average order values change less because of channel and are more dependent on the product mix and category. The average order value for boAt is INR1,500. We ensure price parity across channels. You might see some pricing divergences, but mostly, from our end, we try and give as much pricing parity as possible. As a policy, we don't under-price our products on our D2C channel," he says.

From a consumer behaviour perspective, highly price conscious customers are likely to go to an online marketplace. But once the consumers take the trouble of going to a brand website, they become loyal consumers with a clear intent to make purchases. For those consumers, discounts don't make sense as they are already loyalists and such a practice would lead to a pricing imbalance which will create issues with marketplace partners.

**"The pandemic has completely blurred the lines between online and offline channels. Earlier, D2C was opted by only digital-first brands. Now a lot of legacy companies are following the same route."**

— *Kaushik Mukherjee, co-founder, SUGAR Cosmetics*

### **The bottom line**

In the post-pandemic world wherein consumers are back to offline stores, and footfalls in malls have recovered,

brands are rejoicing the growth momentum. Irrespective of the retail channels, this festive season most consumer brands will see an uptick in sales.

The relevance of D2C, however, stands out — just like EBOs in the offline space. However, D2C is slightly more relevant.

Why?

The primary target audience of most digital-first new-age brands is Gen Z and the millennials who research everything before making the purchase. Whether its how to use the product using a YouTube tutorial or comparing the brand with others using a marketplace channel, the first point of contact that consumers have



with a brand now is online. While the contribution of D2C revenue generation continues to be the lowest among all channels, it is also generated by the brand's strongest loyalists.

Hence, pandemic or not, the D2C channel is here to stay.

*(Graphics by Manali Ghosh)*

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