



THE
**WHOLESALE BRAND
DISRUPTION GUIDE**

Why More Brands are Shifting from B2B to D2C

 cpcstrategy +  wiser

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Introduction

With the rise of consumer platforms, brands no longer need to solely rely on their distributors to stay in business (and they shouldn't). Today, channels like Facebook, Google Shopping, Pinterest, and of course Amazon – offer traditional wholesale brands an opportunity to expand into the world of selling direct to consumer.

According to a recent survey, 59% of respondents preferred to do research directly on brand sites and 55% want to buy from brands directly (vs. multi-brand retailers).

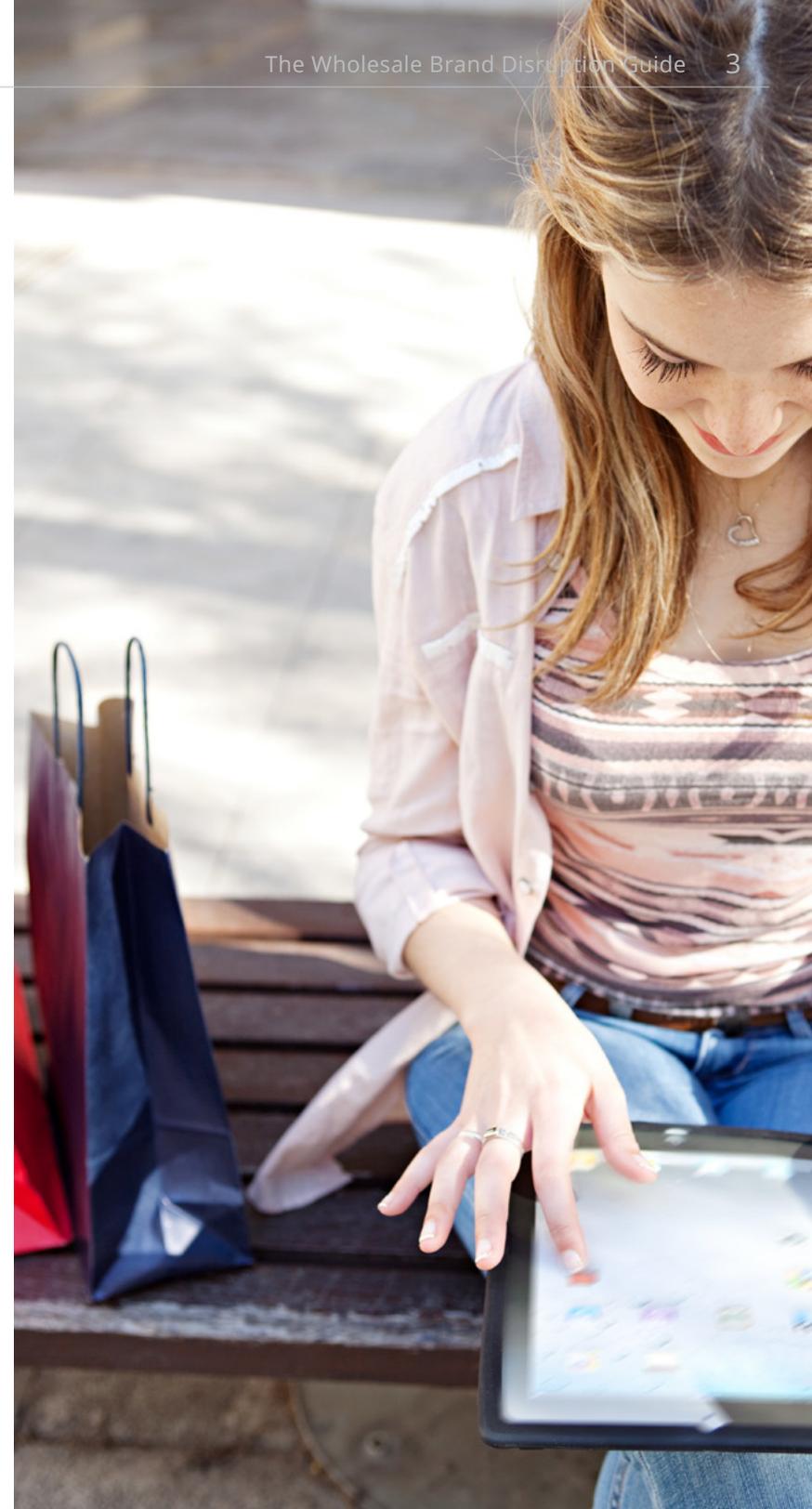
Unfortunately, many traditional wholesale brands are resistant to change.

“One of the biggest misconceptions for wholesale brands is that they don't think they have to advertise on Google Shopping, Amazon or any other channels,” Jostin Munar, Manager, Retail Search at CPC Strategy said.

“Your wholesaler distributors control your price point. Even though you are making that additional margin, what happens when your third party retailers start to fold?”

This could put your brand in a very difficult position, especially if you only rely on brick and mortar retailers.

“As a brand, the main issue is if you stick to wholesale, you won't be able to maintain control over your brand in the long term.”





“I know of a very popular apparel brand, who is now in the process of trying to move direct to consumer but their leadership does not see the value. They have about a dozen major retailers they sell to and the assumption is that these wholesale distributors are always going to be around. But that isn’t a guarantee.”



Justin Munar
Manager, Retail Search
CPC Strategy

Another scenario is maybe you are a brand who has moved beyond the “fear” stage of DTC selling.

For example, a high end shampoo manufacturer is distributing their product through select salons only. Now, they want to start selling their items on Amazon (or direct to their consumers leveraging Facebook advertising). It sounds like a great idea, until their distributors find out and get upset – threatening to pull their agreements.

So, how do brands navigate those awkward conversations (not to mention logistic issues) with their distributors or approach CEOs and other leadership on the possibility of DTC selling?

In the following guide, we take a closer look at the benefits (as well as the challenges) of integrating your wholesale brand with a direct to consumer business model.

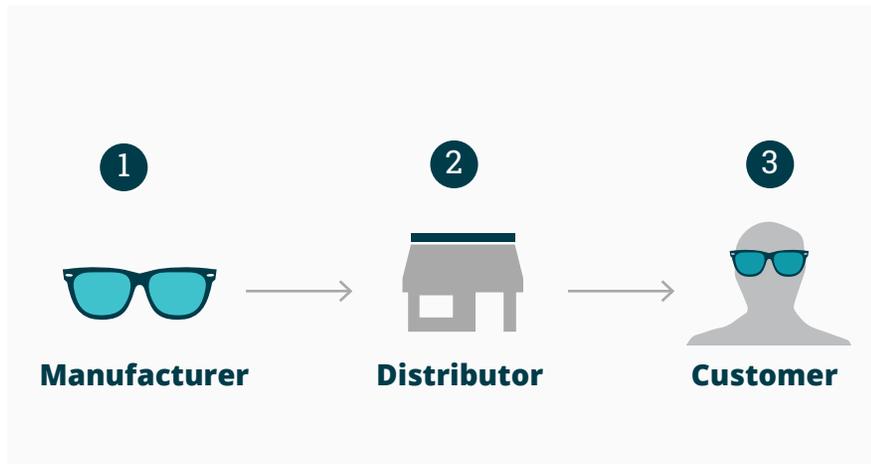


Wholesale Channel vs. Selling Direct to Consumer

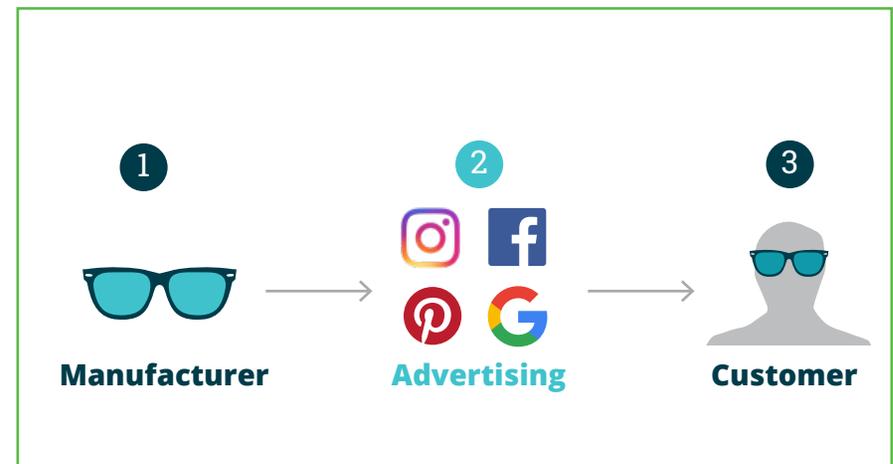
Wholesale Channel vs. Selling Direct to Consumer

Before we dive into the process of integrating your wholesale ecommerce model with direct to consumer selling, here's a quick review of the differences between the two:

Wholesale is when a brand (or manufacturer) distributes their products to retailers in bulk. This model includes the potential to grow your cash flow, since you are allowing your distributors to market your products in their stores or online on your behalf.



Direct to Consumer is the marketing and selling of products directly to consumers from the brand manufacturer. In recent years, the expansion of ecommerce advertising on social media including Facebook, Instagram and Pinterest and the sophistication among advertising platforms like Google Shopping has opened up opportunities for brands to get their products in front of shoppers, without the need for the “middleman” distributor.



Benefits of Selling Direct to Consumer



Benefits of Selling Direct to Consumer

Better Brand Control

Probably one of the biggest benefits of transitioning your business to a direct to consumer model is the ability to control your brand image, pricing, and distribution methods.

For example, when a brand sends in a bulk order of products to one of their wholesalers, they do not necessarily get to control the placement of that product in the store.

Think about it: Does the distributor place your item up front in the display window or are they in the back near the sales section? Is that something you can control?

What a lot of brands need to consider is – do I want to be known as a brand that can be found in the sales section or are we aiming to be front running?

Because if your items don't sell, your distributor could put them on the sales rack or liquidate through channels such as Amazon, which could impact the way customers view and purchase your products.



“Sales in retail stores have steadily decreased across the board and in the industry as a whole. Not only are we attracted to the better margins but there are significantly lower headaches with selling direct to our consumers.”

- Gary Jiang, Digital Marketing Manager at Dream Water said in a [recent interview](#) with CPC Strategy.

Gary Jiang

Digital Marketing Manager
Dream Water



Ownership of the Shopping Experience

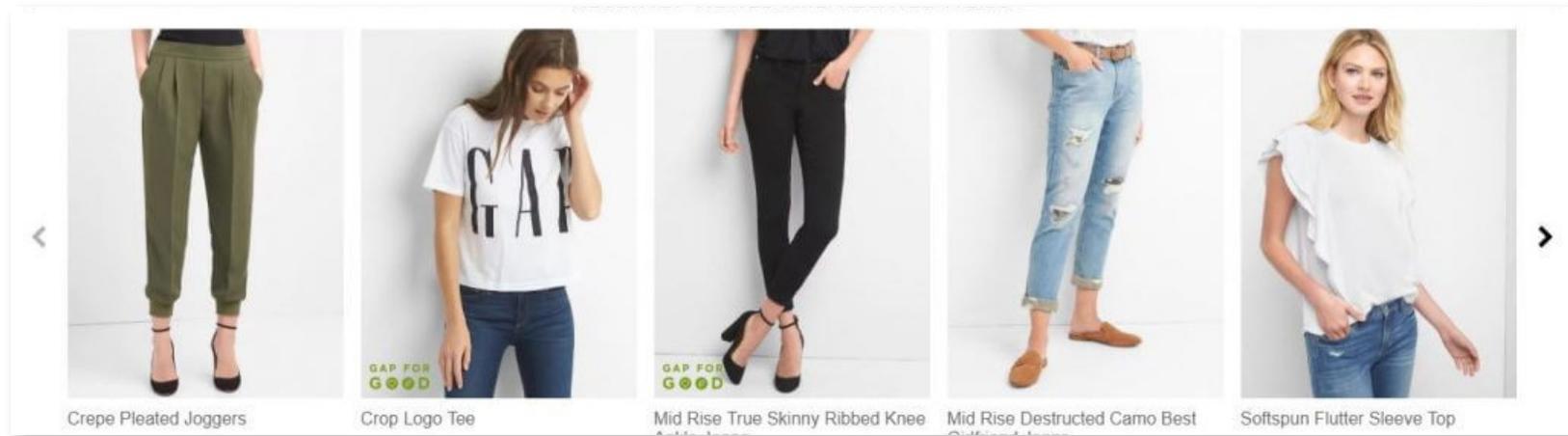
Another benefit of going direct to consumer is you get to control the shopping narrative. When a customer visits a retailer (such as a Tillys), your product is going to be placed alongside competitors (whether that be in an actual brick and mortar or online).

But in a direct to consumer model, when a customer visits your website they won't be looking at your products on the same screen as your competitors.

“Once they make it to your website they can compare two different styles of shirts, but in the end both shirts are your items,” Munar said.

“Selling direct to consumer also gives brands the ability to remarket to their shoppers with coupled styles. You can really customize the shopping experience.”

For example, if an online shopper wants to buy a ruffle cascade shirt from GAP, as a brand they can recommend pairing it with Crepe Pleated Joggers or Girlfriend Jeans. This is something that a brand cannot control if they are selling items through their distributors.



Access to Detailed Customer Data

When brands sell their products to wholesale distributors, there is a disconnect with the amount of consumer data the brand will have access to once those sales take place. The data that comes from a direct to consumer relationship is extremely valuable to brands and helps to identify:

- ✓ Who the customers are (gender, demographics, etc.)
- ✓ Which items they purchased
- ✓ How often customers are buying products (buying cycle, customer lifetime value, etc.)

“Those demand signals, in terms of where your customers are engaging online combined with the benefit of audience profiling tools like the [Data Management Platforms \(DMPs\)](#), help to paint an accurate picture of who your visitors are. When they convert and become your customers you have access to audience information data, and ultimately end up with a very rich picture of who your customers are and what they like.”



Eric Best
CEO
SoundCommerce

Build a Direct Relationship with Your Customer

Most brands agree that establishing a direct relationship with your end customer can be pretty powerful. Having access to customer profiles and buying patterns, can help brands better understand how to re-engage with their shoppers – whether it be through email (like the example from TOBI) or other remarketing tactics.

Selling direct to consumer also gives brands a chance to build loyalty from a successful relationship with the shopper and drive long term customer value through repeat purchases.

TOBI

WELCOME BACK!
**GET 50% OFF
SITEWIDE**
USE CODE: MISSU50
[SHOP NOW](#)

**GET THIS SEASON'S BEST SELLERS
BEFORE THEY'RE GONE!**

The email marketing banner for TOBI features a woman in a blue patterned dress. Below the main banner, there are three product images showing women wearing different styles of dresses: a white strapless top and shorts, a blue patterned dress, and a light blue halter dress.

Drives The Implementation of Technology

In order to be successful with direct to consumer selling, there's a certain IT digital readiness that's required.

"In my experience, when brands go direct to consumer they become more technologically driven in terms of their approach to operations," Best said.

"You are dealing with transaction life cycles that are measured in hours and days, rather than weeks or months. The direct channel can quickly expose areas where you have hidden inefficiencies and operational problems. These issues will become very obvious when you are trying to operate in a more agile responsive manner."



Eric Best
CEO
SoundCommerce



Challenges of Selling Direct to Consumer

Challenges of Selling Direct To Consumers

Fulfillment Challenges

Aside from the “this is how we have always done things” argument, there is a massive shift required to become B2C fulfillment ready, especially living in a world of consumers with very high shipping expectations (thanks Amazon) like 2-day, same day or even 1 hour shipping.

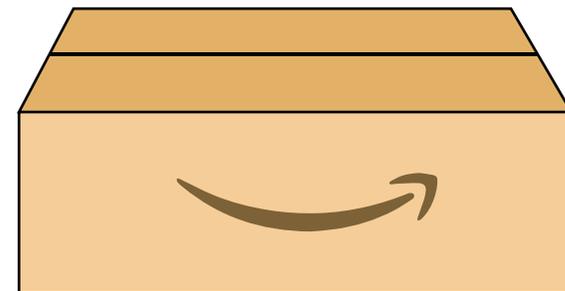
The companies that are actually competitive in fulfillment have the ability to move inventory across the country, where products are staged closer to the customer door so they can ship faster.

Most of the new fulfillment centers are being set up on the outskirts of urban centers, so they can offer things like next day or same day delivery. Thinking about how you compete with that as a brand when you’re trying to build your own warehouse capability is pretty daunting.

This is just one reason why we are now starting to see businesses such as Convoy (rideshare but for products in need of long haul trucking) & Flexe (a network of warehouses tied together from an app) attempting to solve this issue.



amazon.com
Prime



Investment Challenges

Second, you cannot expect all the same margins and profits that you are currently getting with your wholesales.

“If you go into the process with that kind of mindset, you are never going to be successful,” Munar said.

“What you have to do is visualize the ‘long term play’ to connect with those customers and how you are going to make them come back and purchase directly from your brand.”

In addition to that, you also need to understand there will be a fair amount of investment required. From new fulfillment methods & PPC advertising to email marketing, you should be prepared to integrate new technology and strategies into your current business practice.



Jostin Munar
Manager, Retail Search
CPC Strategy



Legal Issues



Legal Issues

MAP violations are rampant when selling online. Whether you have one malicious seller that wants to cut your prices to steal more market share or a group of resellers that closely watch each other's prices and match the lowest to stay competitive, MAP monitoring is more important than ever.

On the flipside, if your resellers are left to their own devices, a domino effect is likely when one rogue seller drops prices. The last thing you want is for authorized resellers to try to renegotiate your MAP prices because they have been trending downward. Keep price erosion at bay by monitoring MAP around the clock and addressing violations early and often.

Due to compliance issues of this nature, many brands are starting to sell DTC, in addition to limiting their distribution to select retailers to take back control of their brand. They are also turning to automation to help manage the MAP enforcement process.

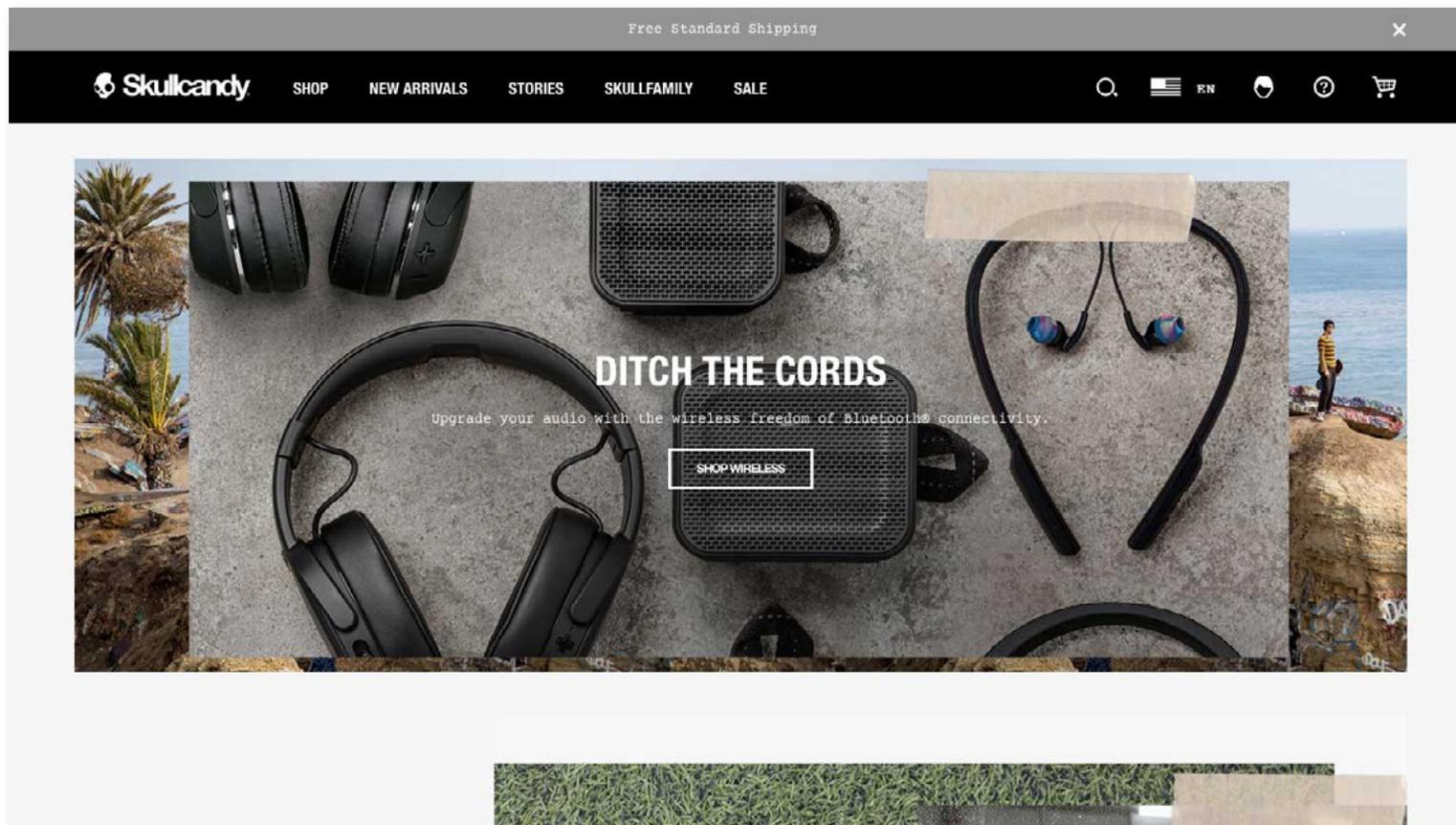
For brands that opt to take control of their MAP enforcement, the first step is to build your case.

Take screenshots of any and all MAP violations and automate the reseller communication process. That way, you can let them know each and every time when they are violating your policy via email.



Take note of patterns and take legal action against the most egregious violator, if needed, in order to discourage all other resellers from violating in the future.

[Skullcandy](#) is the perfect example of a DTC brand that puts automated MAP monitoring to work using Wiser's platform. When MAP violations occur anywhere online, Skullcandy gets instant alerts and the ability to identify any of those resellers that turn out to be unauthorized.



Strategies for Brands Who Want to Start Selling DTC Online

Strategies for Brands Who Want to Start Selling DTC Online

Identify Your Customers & Analyze Top 20% of Repeat Purchasers

One of the most important aspects of moving direct to consumer is figuring out who your customers actually are. Specifically, who your repeat customers are and determine what their customer lifetime value is.

[According to Forbes](#), about 20 percent of your customers produce 80 percent of your sales. But if you are only selling via wholesale, you probably don't know too much about the 20% of those repeat purchasers – yet.

What brands need to figure out is:

- ✓ Who are the top 20% of repeat customers for my brand?
- ✓ Which items are my repeat customers purchasing?
- ✓ What's the average order value for my repeat customers?
- ✓ When are my repeat customers making these purchases?

For example, over a period of 1 year, Joey Smith bought 2 black ribbed Surfer beanies in September, 1 pair of distressed slim fit jeans in November and returned again in December to buy a pair of limited edition Jefferson suede oxford shoes.



— **Forbes**



“Realistically, these are the shoppers you want to better understand and continue to build your customer base on,” Munar said.

“You shouldn’t be too concerned with the individuals making 1 or 2 off conversions. You want to focus on the people who are spending lots of money, throughout multiple years, making multiple purchases from your brand.”

From a paid advertising perspective, brands should also take a closer look at who is purchasing their items off non-branded search terms (example: black beanies).

Once you determine who is purchasing your products (based on branded and non-branded keyword searches) then you can start to build out specific email or remarketing campaigns to target those repeat purchasers such as:

- ✓ Returning customers get 15% off their next purchase
- ✓ Share this product with a friend and get 15% off your next purchase

“At this point, as a brand you are willing to eat that 15% loss for the discount on that customer because you know they fall into your top 20% list of repeat purchasers and are very likely to keep coming back,” Munar said.



Justin Munar
Manager, Retail Search
CPC Strategy



How to Handle Pricing Across Selling Channels

- ✓ Who are the top 20% of repeat customers for my brand?
- ✓ Which items are my repeat customers purchasing?
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How to Handle Pricing Across Selling Channels

While beginning to sell direct to consumer adds new streams of revenue for your business, it also adds layers of complication. Pricing is one of the main concerns for brands. This often boils down to a myth that resellers will be concerned that their distributor has now become their competition. While it is true that a new (and automatically authentic) seller has entered the race for market share, this doesn't have to spell disaster for resellers. Selling DTC means that your products are selling so well that you think you can get into the game as well. This should not frighten retailers, because your products are driving their traffic.

As a brand, pricing is already one of the most contentious parts of the business. Brands have to monitor MAP violations and other compliance issues constantly to keep their brand value intact and this becomes even more pronounced when selling DTC. Because if one reseller violates, a domino effect of falling prices is likely to occur. When brands have more skin in the game than usual as DTC sellers, a cascade of low prices could mean that sales on their own channels will be stagnant at best. So what pricing strategies can brands use to their advantage when selling DTC?

Channel Based Pricing

Pricing based on the specific channel can be a double-edged sword. Meaning that you may be able to make more in revenue and profit by pricing some channels higher than others, but this often comes at the cost of customer trust and loyalty. On the other hand, if there are different target customers that specific channels cater to, there's no reason to not at least try out channel based pricing to find your optimal pricing for each channel. However, sometimes channel based pricing happens without a brand's consent.

The recent news that [Amazon is cutting some third-party seller prices](#) and shouldering the discount on their own sent waves of panic through the world of retail. On one side, many sellers have agreements with the marketplace, stating that their prices on Amazon will be equal to or lower than their prices on other channels. Those brands may be worried about how their price perception will fare with these seemingly random discounts, but at least they won't be getting in trouble with other marketplaces. Amazon isn't taking MAP into account with these new discounts, so that adds in another layer of worry to brands. The other side of DTC brand pricing gets into price parity.





Price Parity

Slashing prices on Amazon could lead to a profit degrading effect for brands because many have price parity agreements with other marketplaces.

Following the logic, if prices are discounted on Amazon, they will have to be on all those other marketplaces they sell on as well. The hyper-competitive marketplaces, especially, aren't going to give in to Amazon. Instead, they will fight to maintain and grow their market share, most likely driving down prices this holiday season. And this puts brands in a difficult place that may cause them to unknowingly violate seller agreements already in place with other marketplaces.

This is an example of when price parity can go wrong, but what about when the pricing strategy functions properly?

Price parity can also go by the name of uniform pricing, in which brands price their products and set their pricing guidelines at the same level across channels. However, when dealing with resellers, the possibility of MAP violations creep in. Pricing policies are a nice start to the relationship, but ensuring that they are followed is key to keeping your brand strong across your many selling channels.



How to Direct Shoppers to Your Own Channels

Selling DTC has one big advantage of giving you control over the buying process. You will be able to run your own promotions, collect emails to send offers to your customers, and control the look and feel of the path to purchase.

With great power comes great responsibility, and your own webstore can be the testing ground for your pricing and promotions strategies over time. This will help you find your pricing sweet spot to offer shoppers more of what they like best. Taking it a step further, this can also help you revamp your pricing policies with resellers to make sure they are in-line with the data you gather while price testing. Selling DTC gives you much more flexibility to learn what pricing works for your brand in real time and in real situations, instead of simply using market research data.



Beyond pricing, performing competitive assortment analysis can help brands develop unique products that keep them away from direct competition with existing resellers. In modern day retail, shoppers of many different ages are looking for exclusive products. Selling tried and true bestsellers across resellers and on your own channels is a great idea. In order to take it to the next level, save your new, experimental products for your direct channels. When resellers are hounding you to get access to those products, you know that you've found your next big thing.

Exclusive products are one way to convey a strong value proposition for buying direct, instead of going through a marketplace or variety store. Are there sitewide deals that shoppers can't find elsewhere? Do shoppers get access to new products earlier? Will they get more from each purchase through a comprehensive loyalty program?

DTC brands have a unique challenge of getting consumers that already love their products to buy directly from them. The solution is to make these value propositions clear in order to directly own the relationship with customers.



Final Thoughts



Final Thoughts

Ultimately in order to be competitive and survive, brands need to take advantage of all the channels that are available to them including Facebook, Google, Pinterest, and Amazon.

Tamara Mellon, former chief creative officer and co-founder of Jimmy Choo said it best in her interview with [Racked](#):

“This is how I think the next generation of luxury brands are going to be built. I don’t believe the next billion-dollar brand will be built in the way I built Jimmy Choo. The way we used to build brands was wholesale and retail. The last brand, probably, to be built like that was Michael Kors.”

“Today, our customer she lives in digital, and unfortunately as an industry, we operate in analog, in a 50-year-old, 60-year-old business model and the customer doesn’t want to shop that way anymore.”

What Now?

Schedule Your Complimentary Retail Search Evaluation

CPC Strategy's Retail Search Evaluation is a complimentary 60-minute analysis and assessment of a retailer's existing Google Shopping campaign architecture, targeting settings, product feed, product pages, and profitability metrics.

[SCHEDULE MY EVALUATION](#)



We Turn Browsers Into Buyers



Wiser is the leading provider of actionable data for better decisions. Wiser collects and analyzes online and in-store data with unmatched speed, scale and accuracy. The Wiser platform then blends these insights with advanced workflow software to drive business value for brands and retailers, including restaurants.

Using a unique combination of data science and human validation, Wiser offers integrated solutions for every aspect of retail, all in one place. Learn more at www.wiser.com.

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