Established consumer goods manufacturers and Direct-to-Consumer (D2C) strategies: How to build capabilities for manufacturers’ own D2C brands

Severin Lienhard
University of St. Gallen

Cite as:
Lienhard Severin (2022), Established consumer goods manufacturers and Direct-to-Consumer (D2C) strategies: How to build capabilities for manufacturers’ own D2C brands. *Proceedings of the European Marketing Academy*, 51st, (106753)

Paper from the 51st Annual EMAC Conference, Budapest, May 24-27, 2022

EUROPEAN MARKETING ACADEMY

Established consumer goods manufacturers and Direct-to-Consumer (D2C) strategies: How to build capabilities for manufacturers' own D2C brands

Abstract:

Increasingly, consumer goods manufacturers sell their products directly to consumers and bypass retailers. They set up Direct-to-Consumer (D2C) strategies. Instead of using existing brands to sell directly, the manufacturers have started to build their own D2C brands. Prior research has not adequately studied how manufacturers build their dynamic capabilities for their own D2C brands. To address this gap, the author used a multiple case study design among six different own D2C brands possessed by large consumer goods manufacturers. The author finds that the manufacturers launch their own D2C brands to reduce retailer dependency and gather customer data. Seizing this D2C opportunity requires a new to the company iterative way of working and a lot of media investments to create brand awareness. Additionally, they benefit from company-wide expertise such as legal services. Regarding the reconfiguration of resources, the manufacturers need new technologies and to enlarge the D2C teams.

Keywords: Direct to Consumer, Consumer Goods Manufacturer, Dynamic Capabilities

Track: Retailing & Omni-Channel Management

1. Introduction

There has been increased attention paid to forward integration in the form of Direct-to-Consumer (D2C) strategies for established consumer goods manufacturers. These strategies have greatly affected the retailing and consumer goods landscape (Meffert et al., 2019). Either through online and/or offline concepts, manufacturers try to build direct relationships with consumers, sell their products directly, and bypass traditional retailers (Kahn et al., 2018). Forward integration calls for new capabilities that often extend beyond the existing core business (Harrigan, 1986). Moreover, these companies lack experience in direct distribution. Despite popular examples such as Nike, who has increased its D2C revenue share tremendously over the past years (Pasirayi & Fennell, 2021), a broad array of manufacturers struggles to build online shops for their existing brands and drive enough traffic to these websites (Gielens & Steenkamp, 2019).

Instead of going direct with existing brands of manufacturers or to acquire D2C start-ups (Schlesinger et al., 2020), such as the famous example of the acquisition of the Dollar Shave Club by Unilever (Pasirayi & Fennell, 2021), manufacturers have started to build their 'own D2C brands' (Lüdtke et al., 2021; Schlesinger et al., 2020). For instance, Henkel has conceptualised the own D2C M:ID, Beiersdorf AG has launched My O.W.N., and Rivella AG has developed Eau&Moi. Launching their own D2C brands enables manufactures to build their D2C competencies, diversify from the current dominant business model, and avoid channel conflicts with intermediaries (Lüdtke et al., 2021). Even though launching D2C brands seems to be an attractive option for manufacturers, there are only a few successes to date, and it is unclear how intermediary manufacturers can build the competencies for their own D2C brands.

Prior research on the D2C strategies of established consumer goods manufacturers has primarily highlighted four different areas (Watson et al., 2015). First, various studies have investigated the determinants to launch a direct channel. Another major research stream has emphasised the relationship with intermediaries and issues such as how to set up a D2C strategy without alienating intermediaries. Other studies have examined the consequences of additional direct channels on firm value (Pasirayi & Fennell, 2021). The final research pillar has developed mechanisms that foster success for these direct channels through strategies such as selling exclusive products and personalised offerings (Gielens & Steenkamp, 2019).

This paper draws on emerging forms of D2C strategies, the D2C brands of consumer goods manufacturers. The author argues that the large body of literature around channel conflicts has highlighted the appeal of manufacturers building their own D2C brands that do not affect their relationships with existing intermediary partners. Since there have only been a few successful cases in this area, the author aims to investigate the organisational actions that consumer goods manufacturers need to undertake to build own D2C brands.

The lens of dynamic capabilities is the most useful approach for investigating this research gap. Dynamic capabilities emphasise organisational actions that change the resource base to ultimately adapt to the changing consumer goods environment (Eisenhardt & Martin, 2000; Teece, 2007). The strategic change of manufacturers directly creating their own D2C brands suits the dynamic capabilities approach (Helfat et al., 2009). The focus of this article is to examine the underlying organisational actions for how to design this change.

Therefore, the author formulates the following research question: How do established consumer goods companies build dynamic capabilities for their own D2C brands?

In the next section, the author outlines the theoretical background of dynamic capabilities, which is followed by the methodology section. The final two sections outline the results and implications.

2. Theoretical Background

Dynamic capabilities represent a popular approach in marketing research since they help explain how companies such as consumer goods manufacturers can respond to rapid market changes and create strategic change through their own D2C brands. Dynamic capabilities enable manufacturers to create, modify, and extend a resource base (Helfat et al., 2009). Dynamic capabilities can be defined as ‘the firm's ability to integrate, build, and reconfigure internal and external competencies to address a rapidly changing environment‘ (Teece, 2014). The concept of dynamic capabilities is frequently split into three capacities: sensing, seizing, and reconfiguring.

The sensing capacity is defined as ‘identification, development, co-development and assessment of technological opportunities in relationship to customer needs’ (Teece, 2014). Sensing mainly supports consumer goods manufacturers to identify new opportunities or threats and gain a deep understanding of the environment. Three organisational actions enable companies to enact the sensing capacity (Yeow et al., 2018). First, the scanning action supports companies to explore opportunities and assemble information. Second, the learning action evaluates potential opportunities. Third, the calibrating action deepens and refines prior actions and enhances their sensemaking.

The seizing capacity is defined as the ‘mobilisation of resources to address needs and op-opportunities and to capture value from doing so’ (Teece, 2014). This capacity can be enacted through three organisational actions (Yeow et al., 2018). The designing action involves the planning of new processes and structures. The scanning action selects different designs to capture opportunities. The committing action helps make decisions regarding how the designs should be implemented.

The transforming, or reconfiguring, capacity is defined as ‘asset alignment, co-alignment, realignment, and redeployment’ (Teece, 2007). This capacity reconfigures the capabilities, structures, and resources of a manufacturer and is enabled through four actions. The leveraging action uses existing resources and harnesses them for new uses. The creating action refers to the creation of a new competence through new resources and processes. The organisational action accessing enables companies to use external resources (Eisenhardt & Martin, 2000). The releasing action dismantles the manufacturer’s existing resources that no longer fit with the new strategy.

This framework serves as the leading theoretical background to determine how manufacturers can build their capabilities for their own D2C brands. There are three main capacities, namely sensing, seizing and reconfiguring, that support manufacturers. These capacities are enacted through different organisational actions. This research framework serves as a coding frame to analyse the different cases.

3. Method

Since D2C strategies and especially manufacturers’ own D2C brands are emerging topics in the retailing and consumer goods landscape (Gielens & Steenkamp, 2019; Kahn et al., 2018; Schlesinger et al., 2020), the author has chosen a multiple case study method. This method is especially appropriate for emerging topics (Eisenhardt & Graebner, 1989). The cases in a multiple case study are selected for theoretical reasons rather than being based on a statistical sample (Yin, 2009). Since dynamic capabilities are located in a manufacturer’s processes and structures, the author has chosen a qualitative rather than quantitative design (Eisenhardt & Graebner, 1989). The ideal sample size to build theory is four to ten cases.

The case selection is linked with the initial problem statement. The author selected established consumer goods manufacturers’ own D2C brands. During the case selection, the author selected D2C brands that are built to sell directly to end consumers through online and/or offline direct channels. Drawing on the different case selection techniques, the author chose the ‘most similar’ cases. All cases come from established companies that are headquartered in the DACH region (Gielens & Steenkamp, 2019).

The author gathered data from different sources since data triangulation is decisive in case study research until theoretical saturation was reached. The author ran semi-structured interviews with the leaders of these D2C brand projects. Moreover, the author gathered news articles through the WISO data base and a Google News search. Moreover, the author examined press releases and the own D2C brand websites. An overview of the data sources is compiled in table 1.

Case / **Document**	A	B	C	D	E	F
Interviews	2	2	1	1	2	1
News Articles	6	6	4	8	10	1
Press Releases	1	9	1	2	0	0
Websites	5	3	3	4	4	6

Table 1: Data sources of the multiple case study (own illustration)

The data analysis was mainly supported through the software Atlas.ti. All interviews were transcribed and together with the other three data sources (news articles, press releases, websites) analysed. The software facilitated the coding process and ensured additional rigor (Yin, 2009).

The author analysed the data in a five step approach and followed a clear process (Eisenhardt & Graebner, 1989). Since dynamic capabilities are rarely context-independent, the author first described the D2C brand profiles. The second step involved deductive coding. The coding manual based on the three capacities (sensing, seizing, reconfiguring) for dynamic capabilities served as a clear coding frame and guideline. The different organisational actions related to these capacities were the main analytical units (Yeow et al., 2018). After the initial coding, the author described statements in the form of first-order concepts, followed by aggregated dimensions in form of second-order concepts (see results table 2). This deductive approach enabled the author to compare the cases. After the coding of the different data sources (interviews, news articles, press releases, websites) the dynamic capabilities per own D2C brand case became clear. This step was followed by a within-case analysis and a cross-case analysis (Eisenhardt & Graebner, 1989). The fifth step was the identification of a logic behind the dynamic capabilities.

The cross-case analysis, careful case selection and the description of the firm and its circumstances contributed to the ensuring of the external validity of the study (Eisenhardt &

Martin, 2000). To maintain the reliability of the study, the author used a case study protocol and a database to store all documents.

4. Results

The initial step of the analysis process, the firm respectively own D2C brand description has revealed a first remarkable outcome.

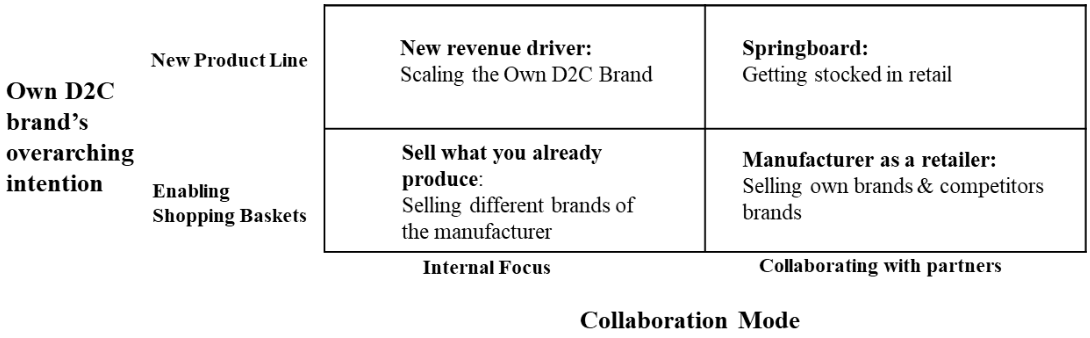

Figure 1: Description of manufacturers' own D2C brands (own illustration)

Manufacturers' own D2C brands possess two main intentions and two different approaches towards collaboration. First, some manufacturers intend to launch the D2C brand to introduce a new product line that caters to a new segment, such as personalised and information-intensive products. This approach of creating a new product line can take two forms. First, the D2C brand aims to increase in scale and become an attractive *revenue driver.* The results also highlight the new product line intention can be linked with the goal to get stocked in retail. This different collaboration mode is called *springboard*. The second intention is to offer shopping baskets for the consumers. This allows manufacturers to sell different brands in one shop, called *sell what you already produce.* Moreover, this approach can be extended to include the collaboration mode, where the manufacturers start to purchase competitors' products to be able to offer an attractive assortment. This is summarised as *manufacturer as a retailer.*

The main findings of the multiple case study regarding the dynamic capabilities that are necessary to build manufacturers' own D2C brands are presented in table 2. The table encompasses the different dynamic capability capacities. In the second column, the author presents the similar dynamic capabilities among the different manufacturers. In contrast, the third column outlines the different capabilities that have emerged from the study.

Dynamic capability capacity	**Similar dynamic capabilitites**	**Different dynamic capabilities**
Sensing	Benefiting the digital and e-commerce trend Reducing retailer dependency Building a direct relationship with the customer and understanding the customer through gathering data Defining the purpose and goals of the own D2C brand	Solving a customer pain point and satisfying emerging personalised customer needs Ease to test new products or ideas Exploiting R&D or incubator developments that fit with direct channels Bringing products to the market that the retail partners do not want to stock Avoiding conflicts with retailers
Seizing	Large investments into media to create and increase the brand awareness of this new D2C brand Adapting to a new working mode Committing to internal resource allocation and the selection of new structures Using company-wide infrastructure to mobilise certain D2C building blocks	Defining a governance mode for the new D2C brand within the company Incubator or innovation team building the D2C brand alone Building on the B2B direct selling web shop and competencies
Reconfiguring	Creating new technological competencies to shape the direct contact Developing D2C maturity and deciding on the future in terms of investments and goals for the D2C brand Enlarging the D2C team and reconfiguring the structures to fit with the intended future development	Leveraging the built D2C building blocks and knowledge for other company-wide brands Developing new D2C-specific KPIs Accessing products from competitor manufacturers Building retailer relationships Building separate structures and leaving the manufacturers

Table 2: Dynamic capabilities for own D2C brands of established consumer goods manufacturers (own illustration)

The findings for the sensing capacity stressed four major dynamic capabilities. All surveyed managers and additional data sources revealed that established consumer goods manufacturers want to benefit from the digital and e-commerce trend. This is linked with the current situation of these manufacturers as they aim to reduce their dependency on retailers. Since manufacturers generally do not know who their customers are, learning through data gathering is a key opportunity sensed by the companies. This is illustrated by the following quote: ‘the goal was to generate learning from this, how we work with personalisation, how we work with D2C, how we work with other direct consumer interactions, because these are all fields that we didn't have before' (Case D). Furthermore, regarding the calibration of the D2C opportunity, the derivation and definition of the goals of the D2C brand is crucial. Looking at different dynamic capabilities, some mentioned that own D2C brands enable them to easily test ideas or new products in the market. One company has tried to solve a specific customer pain point, whereas another has developed products in R&D or an incubator that eventually fit perfectly with the D2C brand. Lastly, the manufacturer can even build its own D2C brand if the product line does not get stocked in retail or to avoid any conflicts with retailers at all.

The seizing capacity encompasses the need to invest a lot into media to create brand awareness for this new brand. Another capability is the working mode. The D2C brand requires an iterative approach and quick responses, which are new facets for an established consumer goods manufacturer. The following quote demonstrates this radical change: 'The entire management is quite different from traditional sales management. That is live tracking of the orders, that is certain activities are done in the morning at 9 o'clock gather around the table and determine what is our goal for the day, what exactly do we want to do today, what do we want to try out?' (Case B). Internally, getting the commitment of core stakeholders is required to be allowed to select the necessary structures or new competencies. An advantage that the manufactures exploit is the usage of a company-wide infrastructure that supports the building of a D2C brand. Different capabilities also emerged in terms of new governance modes that are necessary to use. Two cases reported that the entirely separate incubator team was responsible for the D2C brand. This contrasts with another manufacturer that mobilised the resources from its B2B web shop and transferred relevant ones to the D2C approach.

The reconfiguring capacity encompasses the creation of new technological competencies which have not been necessary in the traditional intermediary business. A further capability refers to the fact that at a certain point these D2C models become mature. At this point, the manufacturers are forced to take action and decide how to proceed: e.g. scaling it massively which requires large investments, getting stocked in retail or stopping the project. This is linked with the requirement to enlarge the D2C teams and equip them with resources that allow them to accomplish the desired goals. Regarding the different capabilities, one company reported that the D2C brand created new capabilities for them, such as a subscription service on the website. They noted that this can also be internally leveraged for other brands. Another manufacturer claimed that D2C required the creation of new KPIs to sustain the brand in the long term, as the entire D2C brand works differently than the traditional business. Lastly, accessing other competitors' products and contacting retailers are also capabilities that certain

D2C brands have built. Companies also mentioned that releasing resources and leaving the traditional manufacturer structure enabled the brand to grow independently, as the following statement reveals: ‘There has certainly been too much of an attempt in the past to somehow push us completely into the structures of the parent company. But it is just a different business model! That simply has to be said very clearly’ (Case A).

5. Implications

The established consumer goods manufacturer is streamlined to sell through intermediaries, and all processes and structures are dedicated towards the best possible performance in the retail channels. Consequently, these manufacturers heavily, or almost exclusively, rely on these partners to generate revenues. Launching their own D2C brand offers interesting options for manufacturers to avoid channel conflicts and exploit new revenue streams. The results of this study are highly topical and address recent and emerging phenomena. Moreover, these findings have implications for both managers and researchers.

Managers benefit from the current study in two ways. First, the similar dynamic capabilities can be used as a guideline for successfully launching and implementing a D2C brand. The different dynamic capabilities can also serve as a toolbox to individualise the approach.

For researchers, this investigation serves as a starting point for future studies in the D2C field. Academia is well aware of the channel conflicts that may occur through direct channels. The approach of manufacturers building their own D2C brands opens to new research areas. Further research might focus on single cases and observe them in the long term to see how the importance of the dynamic capabilities vary. Another promising angle poses the question of how well manufacturers’ own D2C brands can be used as a ‘go-to-market strategy’ which means aiming for getting stocked in retail.

References

Eisenhardt, K. M., & Graebner, M. E. (1989). Theory building from case study research. *Academy of Management Review*, *14*(4), 532–550.

Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: what are they? *Strategic Management Journal*, *21*(10-11), 1105–1121.

Gielens, K., & Steenkamp, J. B. E. M. (2019). Branding in the era of digital (dis)intermediation. *International Journal of Research in Marketing*, *36*(3), 367–384. https://doi.org/10.1016/j.ijresmar.2019.01.005

Harrigan, K. R. (1986). Matching vertical integration strategies to competitive conditions.

Strategic Management Journal, *7*(6), 535–555.

Helfat, C. E., Finkelstein, S., Mitchell, W., Peteraf, M., Singh, H., Teece, D., & Winter, S. G. (2009). *Dynamic capabilities: Understanding strategic change in organizations*. John Wiley & Sons.

Kahn, B. E., Inman, J. J., & Verhoef, P. C. (2018). Introduction to Special Issue: Consumer Response to the Evolving Retailing Landscape. *Journal of the Association for Consumer Research*, *3*(3), 255–259. https://doi.org/10.1086/699389

Lüdtke, J.-P., Hoeft, L., & Diegel, M. (2021). D2C-Startups als Wachstumshebel für etablierte Markenhersteller. *Marketing Review St. Gallen*, *6*.

Meffert, H., Burmann, C., Kirchgeorg, M., & Eisenbeiß, M. (2019). *Marketing: Grundlagen marktorientierter Unternehmensführung Konzepte–Instrumente–Praxisbeispiele* (13. Editio). Springer-Verlag.

Pasirayi, S., & Fennell, P. B. (2021). The effect of subscription-based direct-to-consumer channel additions on firm value. *Journal of Business Research*, *123*, 355–366.

Schlesinger, L., Higgins, M., & Roseman, S. (2020). Reinventing the Direct-to-Consumer Business Model. *Harvard Business Review*. Reinventing the Direct-to-Consumer Business Model

Teece, D. J. (2007). Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, *28*(13), 1319–1350. https://doi.org/10.1002/smj.640

Teece, D. J. (2014). The foundations of enterprise performance: Dynamic and ordinary capabilities in an (economic) theory of firms. *Academy of Management Perspectives*, *28*(4), 328–352.

Watson, G. F., Worm, S., Palmatier, R. W., & Ganesan, S. (2015). The Evolution of Marketing Channels: Trends and Research Directions. *Journal of Retailing*, *91*(4), 569–585. https://doi.org/10.1016/j.jretai.2015.04.002

Yeow, A., Soh, C., & Hansen, R. (2018). Aligning with new digital strategy: A dynamic capabilities approach. *The Journal of Strategic Information Systems*, *27*(1), 43–58.

Yin, R. K. (2009). Case study research: Design and methods 4th edition. *United States: Library of Congress Cataloguing-in-Publication Data*.