October 2020

# Driving business agility and delivering better digital experiences with a direct-to-customer strategy

adyen

451 Research
S&P Global
Market Intelligence

## ABOUT THE AUTHORS

### SHERYL KINGSTONE

RESEARCH DIRECTOR,
CUSTOMER EXPERIENCE & COMMERCE

Sheryl Kingstone leads coverage for Customer Experience & Commerce for 451 Research, a part of S&P Global Market Intelligence, focusing on the many aspects of how customer experience is a catalyst for digital transformation. She oversees the company's coverage of a variety of customer experience software markets spanning ad tech, marketing, sales, commerce and service.

### JORDAN MCKEE

PRINCIPAL RESEARCH ANALYST,
CUSTOMER EXPERIENCE & COMMERCE

Jordan McKee is a Principal Research Analyst for Customer Experience & Commerce, leading the coverage of the payments ecosystem at 451 Research, a part of S&P Global Market Intelligence. He focuses on the digital transformation of the commerce value chain, with an emphasis on the major trends and technologies impacting payment networks, issuing and acquiring banks, payment processors and other payments industry stakeholders.

### HALEY BROWN

SENIOR RESEARCH ASSOCIATE

As a Senior Research Associate in the Customer Experience & Commerce Channel at 451 Research, a part of S&P Global Market Intelligence , Haley Brown contributes coverage to a range of customer experience software markets from both a qualitative and quantitative perspective. This includes mar-tech and digital commerce with particular focus on data-driven customer experiences, digital content and personalization.

# Table of Contents

# Key Findings

- *Direct-to-consumer (D2C) strategies are rising in prevalence.* Over three-quarters (78%) of enterprise respondents said they are either actively implementing a formal D2C strategy or are in the planning stages, while nearly two in five (38%) consumers claimed to buy directly from more brands today than two years ago.
- *D2C strategies grant entry to a massive revenue opportunity.* Our analysis indicates a nearly $165bn revenue opportunity can be tapped into through the delivery of cross-channel buying options and personalized experiences. D2C gives brands an inroad to capitalize.
- *Payments are an essential component of any D2C strategy.* Payments serve as critical infrastructure for D2C initiatives and are a major customer experience factor. More than two in five (42%) consumers strongly agree that if a brand has limited payment options, they are less likely to shop with it in the future.
- *A D2C strategy is well aligned with the emerging needs of brands and businesses navigating the market shifts driven by COVID-19.* The majority of enterprise respondents said that their D2C strategy allows for better customer engagement and loyalty (83%), greater control over the customer experience (89%), and greater agility and competitive standing (93%).

# Direct-to-Consumer Enables New Digital Experiences and Drives Revenue

Consumer expectations for differentiated and relevant brand experiences are growing. Competing on price or convenience is no longer enough to retain customers and build long-term brand relationships. Moving forward, retention will largely be driven by trust and loyalty, enabled by more direct brand relationships.

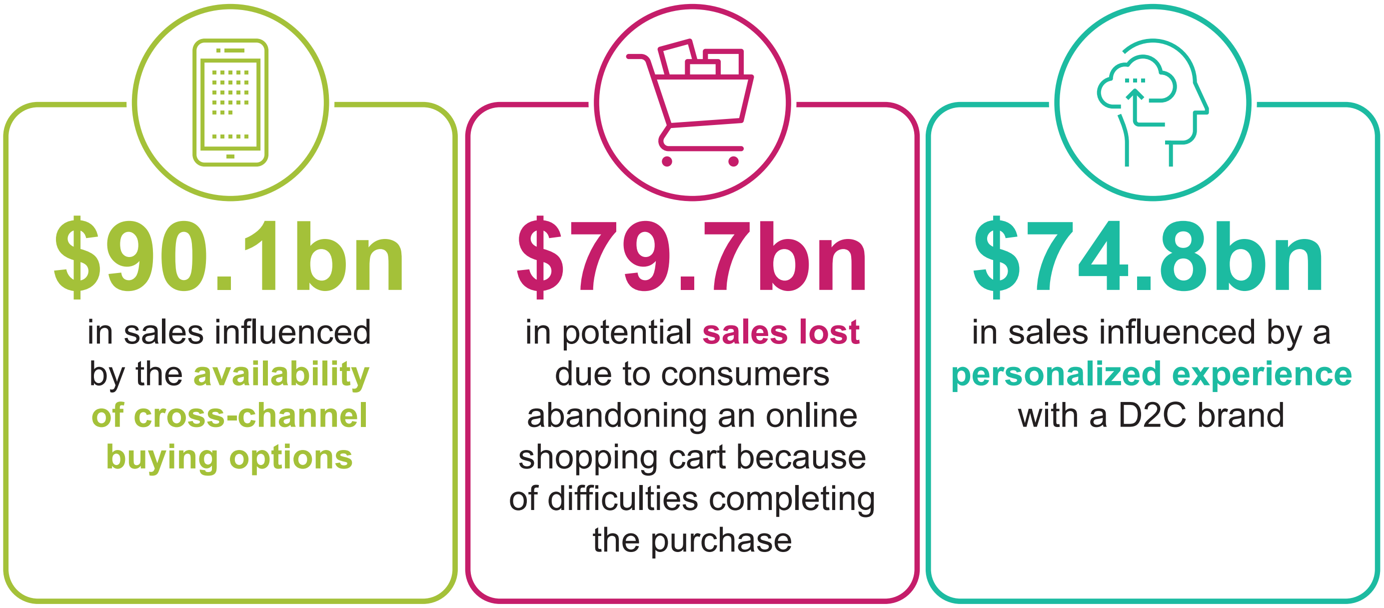
To keep up with rising demands, brands are increasingly cutting out middlemen such as department stores and marketplaces to take greater ownership over their brand experience and the customer journey. Nearly 65% of enterprise respondents said that in the last 12 months, a greater proportion of their sales revenue was generated via direct-to-consumer (D2C) channels. Consumer appetite for D2C is growing, with nearly two in five (38%) consumer respondents claiming to buy directly from more brands today than two years ago.

## Going Direct Grants Entry to a Nearly $165bn Revenue Opportunity

As the D2C market opportunity expands, brands and businesses that are actively investing in D2C channels are poised to claim a piece of the $164.9bn revenue opportunity associated with the successful execution of D2C strategies. Specifically, our analysis indicates that $90.1bn in sales is influenced by the availability of cross-channel buying options and that $74.8bn in sales is influenced by a personalized experience with a D2C brand. Capitalizing on either of these opportunities requires a streamlined payment experience, especially considering that $79.7bn in potential sales is lost due to friction at online checkout (Figure 1).

Figure 1: D2C opens up new revenue opportunities

*Source: 451 Research*




What exactly is D2C? 451 Research defines direct-to-consumer as a business model involving a consumer brand manufacturer that sells the products or services it produces directly to end consumers, forgoing the use of third-party wholesalers, retailers or other middlemen. The trend toward D2C has attracted brands of all types, with over three-quarters (78%) of enterprises claiming their organization is either actively implementing a formal D2C strategy or is in the planning phase.

The increasing prevalence of the D2C business model is driven by tangible results, with brands and businesses recognizing significant value by streamlining the relationship to the consumer. In our survey, 88% stated that D2C enables more creative freedom to implement new sales and engagement strategies, while 84% claimed it improves their ability to offer tailored payment experiences at checkout. Additionally, 79% said it improves access to customer data to inform omnichannel strategies, allowing brands to meet consumers with relevant experiences and interactions in their preferred channels of engagement (Figure 2).

Figure 2: Formal D2C strategies drive revenue, reduce friction and enable cohesive experiences across channels

*Source: 451 Research*

**88%**

state D2C enables more creative freedom to implement **new sales and engagement strategies** e.g., subscription models

**Drive Revenue**

**84%**

state D2C improves the ability to offer **tailored payment experiences** at checkout to reduce friction

**Reduce Friction**

**79%**

state D2C **improves access to customer data** to inform omnichannel strategies

**Intelligent Omnichannel**

At the heart of any winning D2C approach is a strong payments strategy. Payments are a critical customer experience factor, weighing heavily on consumers' likelihood to buy and then become repeat buyers. Payments also serve as the enabling infrastructure that underpins organizations' broader D2C investment. For initiatives further up the sales funnel to be effective (e.g., marketing, merchandizing, unified commerce), an efficient and effective framework for collecting customer payments must be in place. Given payment's importance, many D2C companies are reevaluating the capabilities of their existing payment stack regarding how effectively it serves customers and helps grow their business. In fact, 'modernizing payment infrastructure' ranked as the top strategic payment priority for D2C businesses (Figure 3) in our study.

Figure 3: Modernizing payment infrastructure is top of mind for D2C businesses

*Source: 451 Research*

**Modernizing Payment Infrastructure**


Ranks as the **#1 strategic payment priority** for D2C businesses

## The COVID-19 Landscape Imposes New Challenges

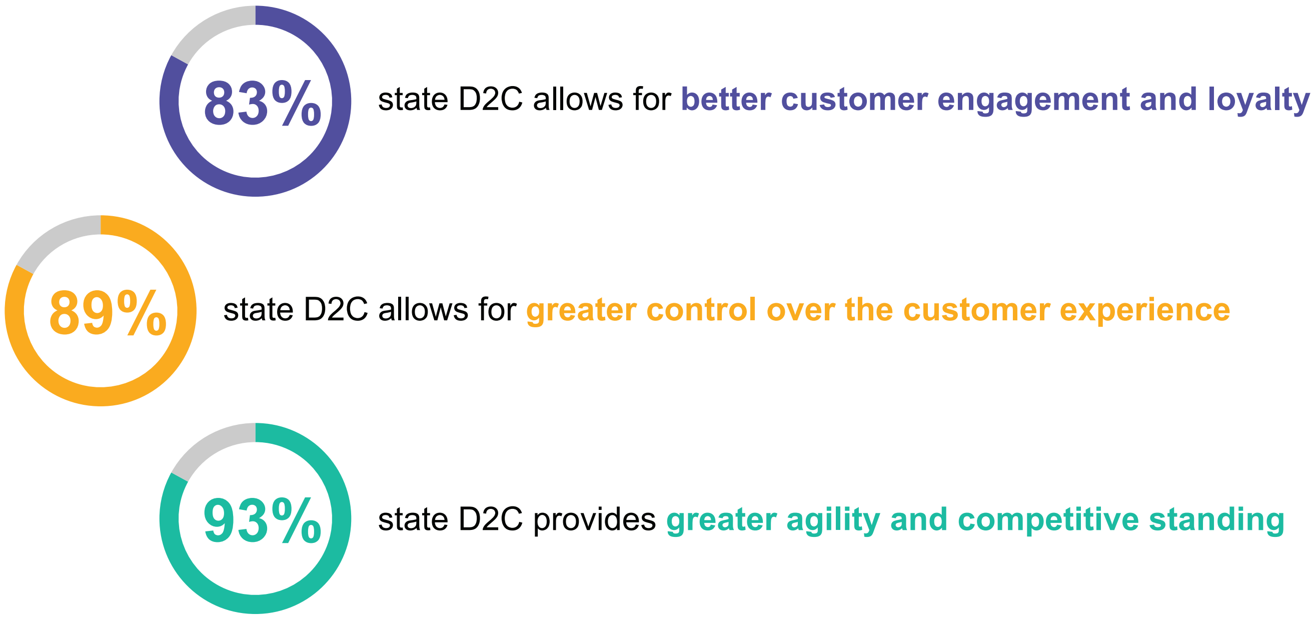
The digital landscape has become increasingly complicated since the onset of the COVID-19 pandemic. An unprecedented number of consumers have switched to digital channels to shop and transact, putting pressure on brands to adapt their business models and accelerate their digital transformations.

Maintaining customer engagement and brand loyalty via digital channels amid rapidly changing market conditions has provided brands and retailers with new challenges. An omnichannel payment strategy has become tables takes to remain competitive in this new environment. Shoppers want frictionless buying experiences and are willing to offer loyalty in return. Consider that 42% of consumers said the availability to buy online and pick up in-store would significantly influence their loyalty to a brand. Offering low- and no-touch purchase experiences has also become essential. More than half (55%) of shoppers that strongly prefer to purchase from a brand said they prefer to use a digital wallet over other payment methods.

A direct-to-consumer strategy is well aligned with the emerging needs of brands and businesses navigating the market shifts driven by COVID-19. As shown in Figure 4, the majority of enterprise respondents said their D2C strategy allows for better customer engagement and loyalty (83%), greater control over the customer experience (89%), and greater agility and competitive standing (93%). All of these are essential to drive customer retention while enabling the adaptability to respond to a market in flux.

Figure 4: D2C strategy aligns with the emerging needs amid COVID-19

*Source: 451 Research*




Businesses operate within a price-sensitive world. While most consumers are price-sensitive and prioritize the lowest cost above all else (59%), nearly two in five said they do prefer to purchase directly from a brand as opposed to a department store or marketplace. The drive to buy directly from a brand is inspired by perceived trust (38%) and brand loyalty (38%), with consumers shopping more frequently on average with a brand they advocate.

Direct-to-consumer strategies streamline the relationship between the brand producer and end user, granting brands greater autonomy over customer engagement and experiences, which is critical to adapt to a landscape inverted by COVID-19. Competing on price alone will not be enough to attract and retain consumers into the future, particularly as consumer sentiment toward price will continue to be influenced by the pandemic and its overall economic impact. Moving forward, retention will largely be driven by trust and loyalty, enabled by more direct brand relationships.

D2C businesses must recognize that payments are an important part of winning customers and driving loyalty. Among the most essential requirements is ensuring choice at checkout. In our survey, 42% of consumers said they strongly agree that if a brand has limited payment options, they are less likely to shop with that brand in the future. This rises to 60% for consumers that have an annual personal income over $100,000. Most D2C businesses are still struggling to meet these requirements, with just 35% offering alternative payment methods and 30% offering loyalty payment methods.

## Six D2C Strategies for Building Customer Engagement and Loyalty

Businesses looking to implement a range of digital D2C strategies have options to maintain engagement and deliver deeper value to their customers. Our research has revealed six key initiatives (Figure 5) that inspire loyalty and drive revenue from brand advocates (consumers that strongly prefer to purchase directly from a brand).

Figure 5: Six essential D2C strategies

*Source: 451 Research*


### Fast Shipping

Among brand advocates, fast shipping for products (e.g., same day or one-to-two-day shipping) emerged as the top engagement strategy, with nearly seven in 10 (69%) stating that it would positively influence their loyalty to a brand. Streamlining the experience and accelerating the time to perceived value from a consumer's perspective should be the top priority with a D2C strategy.

### Loyalty Programs

Consumers reported that loyalty programs have a significant bearing on increasing their loyalty to a given brand (64%). Recognizing – and rewarding – consumers' commitment and advocacy promotes a two-sided relationship between the brand and consumer, providing differentiation through this bidirectional value exchange.

### Cross-Channel Buying

The flexibility and convenience associated with cross-channel buying (e.g., buy online, pick up in-store; reserve online, pick up in person) is important to building loyalty; 60% of consumers said they would be more loyal to a brand if it provided cross-channel buying options. Cross-channel buying options like scheduling curbside pickups and ordering ahead have become critical strategies to maintain the relevance of physical stores, particularly in light of COVID-19 store closures. Such options have also helped businesses better adhere to public safety mandates, increasing trust and loyalty among consumers.

### Streamlined Payment Experiences

Poor payment experiences jeopardize customer loyalty and throttle the ability of D2C companies to innovate. More than three in four (77%) brand advocates have abandoned a purchase due to a negative payment experience, such as having to fill out a lengthy payment form. Experiences like one-click checkout can help to avoid these types of bad experiences, considering 58% advocates prefer to store their payment card information with a brand to enable faster checkout for return visits.

### Responsive customer service

Providing consumers with the means to engage and interact on their terms is key to driving advocacy. Three in five brand advocates claimed that having an online chat for customer support would positively influence their loyalty. Providing synchronous digital communication tools to interact in real time facilitates a greater sense of being heard and valued, building a stronger relationship between the brand and consumer. In a time of unpredictability, having the means to directly and meaningfully communicate with consumers is pivotal to their experience.

### Contextual Experiences

At the core of creating meaningful experiences with a brand is context. In our study, 60% of brand advocates claimed that receiving personalized recommendations would encourage their loyalty. Digital experiences that are contextually relevant create a 1:1 relationship between a brand and consumer, driving loyalty and revenue. As previously stated, $74.8bn in revenue is influenced by consumers who have made a purchase directly from a consumer brand manufacturer due to a personalized customer experience.

Digital direct-to-consumer strategies that facilitate the creation of frictionless, convenient and relevant consumer experiences across channels provide significant opportunity to drive engagement and strengthen relationships. This will be more important than ever amid the unique and intensifying challenges of a post-COVID world.

# Digital Maturity Influences Execution of D2C Strategies

Digital transformation is a well-planned approach to IT innovation; it is the application and optimization of technologies that force organizations to rethink all facets of their activities. Being digitally driven makes an organization better suited to implement the technologies and processes required for a pivot to a D2C business model (43% of enterprises that have actively taken strides to digitize their business processes have a formal transformation strategy).

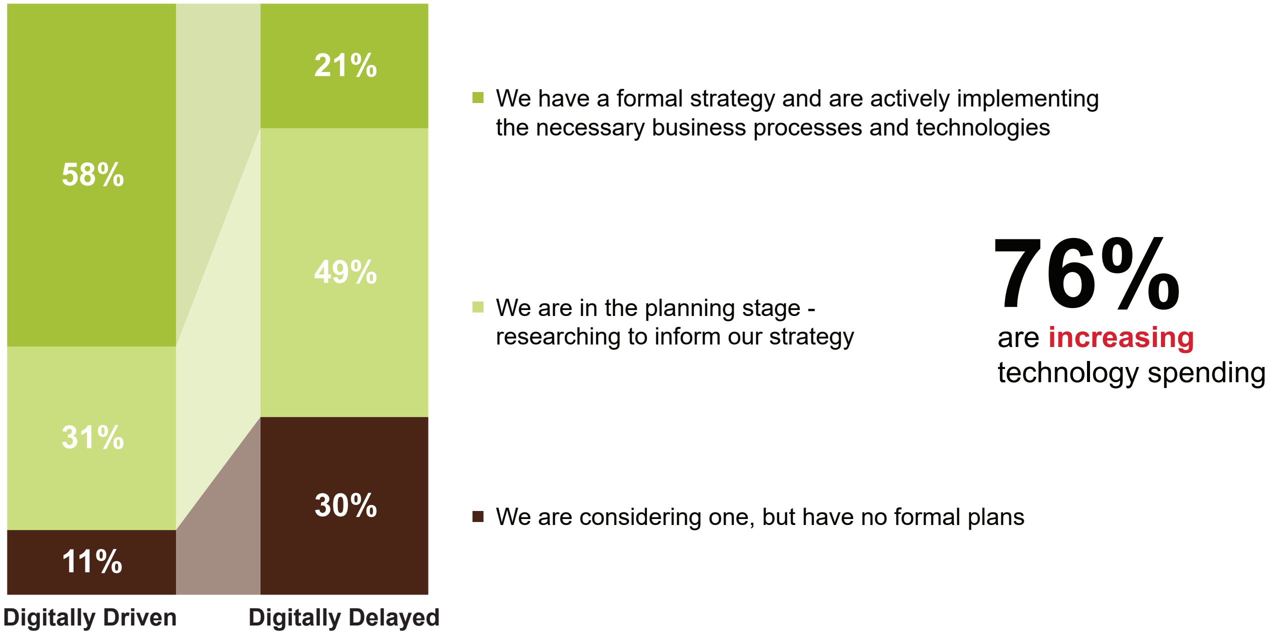
## Digitally Driven Organizations Have More Mature D2C Strategies

Enterprises that have yet to implement or execute on a digital transformation strategy – we refer to these as 'digitally delayed' (57%) – will need to invest in more foundational, enabling technologies to make the transition to D2C. It is not surprising that digitally driven companies have more mature D2C strategies; 58% reported that they have a formal D2C strategy in place, compared to only 21% of digitally delayed organizations, a 37-percentage-point differential between the two (Figure 6).

This innovation gap indicates that digitally driven companies view a D2C strategy as an important component of their overall transformation strategy. Underscoring this, 76% said they intend to increase their D2C technology spending over the next 12 months. Digitally driven businesses understand the value to be gained from a D2C approach, and their continued investment will allow them to adopt new and engaging digital experiences that meet increasing consumer demands.

Figure 6: Digitally driven organizations are strategically focused on selling direct to consumers

*Source: 451 Research*



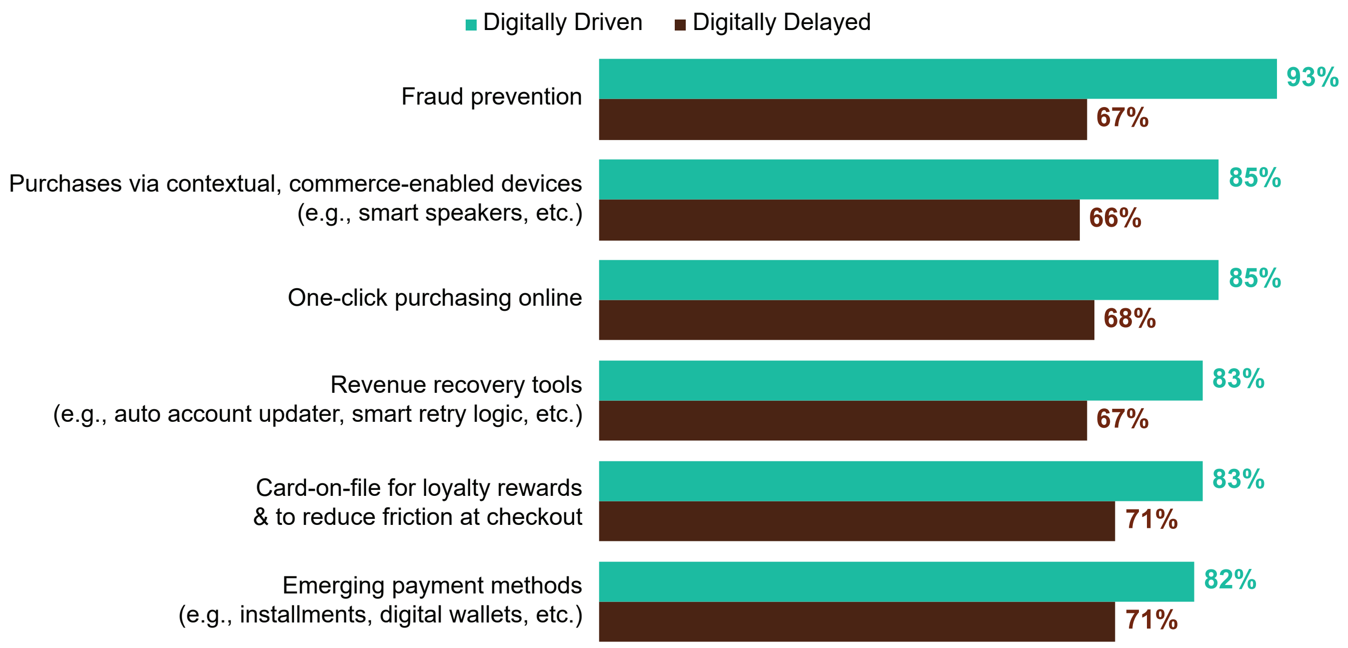
## Digitally Driven Businesses Lead in Prioritization and Execution of D2C Strategies

Business priorities and execution of a D2C strategy vary between digitally driven and digitally delayed organizations. This is especially the case when it comes to the level of emphasis they place on payments. We found that digitally driven businesses are more likely to view payments as a 'highly strategic area of focus that drives significant competitive differentiation' compared to their digitally delayed counterparts (77% vs. 53%). This is apparent when looking at the level of priority they place on specific payment initiatives (Figure 7). Across the board, digitally driven businesses place greater importance on pursuing payment initiatives to improve their D2C strategy. This is especially the case when it comes to fraud prevention, contextual commerce and enabling one-click purchasing.

Figure 7: Payments are a bigger priority for digitally driven businesses

*Source: 451 Research*

*Q. On a scale of 1-10, how important are each of the following technologies for improving your direct-to-consumer strategy? :- Summary of Top 3 Box*

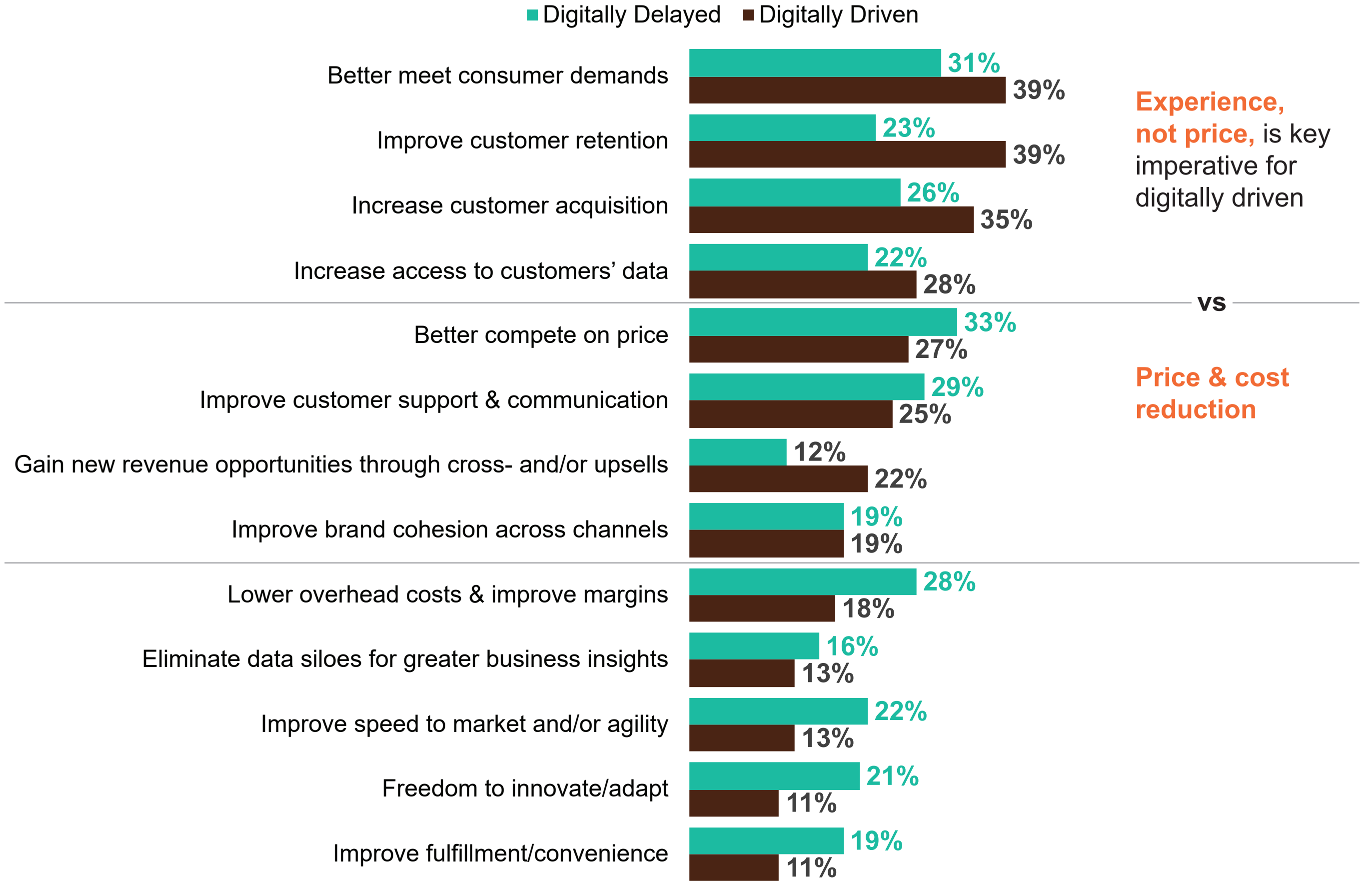



Digitally driven organizations are creating a foundation for their D2C initiatives that aligns with customer experience imperatives. This is apparent not only in their payment strategies, but also their focus on areas that are critical to customer engagement and revenue generation. As shown in Figure 8, digitally driven organizations' D2C strategies are more likely to prioritize meeting consumer demands (39%), improving retention (39%), increasing customer acquisition (35%) and improving access to customers' data (28%). Comparatively, digitally delayed organizations are focused on achieving price-optimization and cost-reduction imperatives with their D2C strategies: 33% said they are seeking to better compete on price, and 28% are seeking to lower overhead costs and improve margins.

Figure 8: Digital leaders prioritize customer experience over costs

*Source: 451 Research*

*Q. Which of the following are the main business imperatives driving the overall D2C strategy at your organization?*




## Digital Maturity Influences Barriers to D2C Initiatives

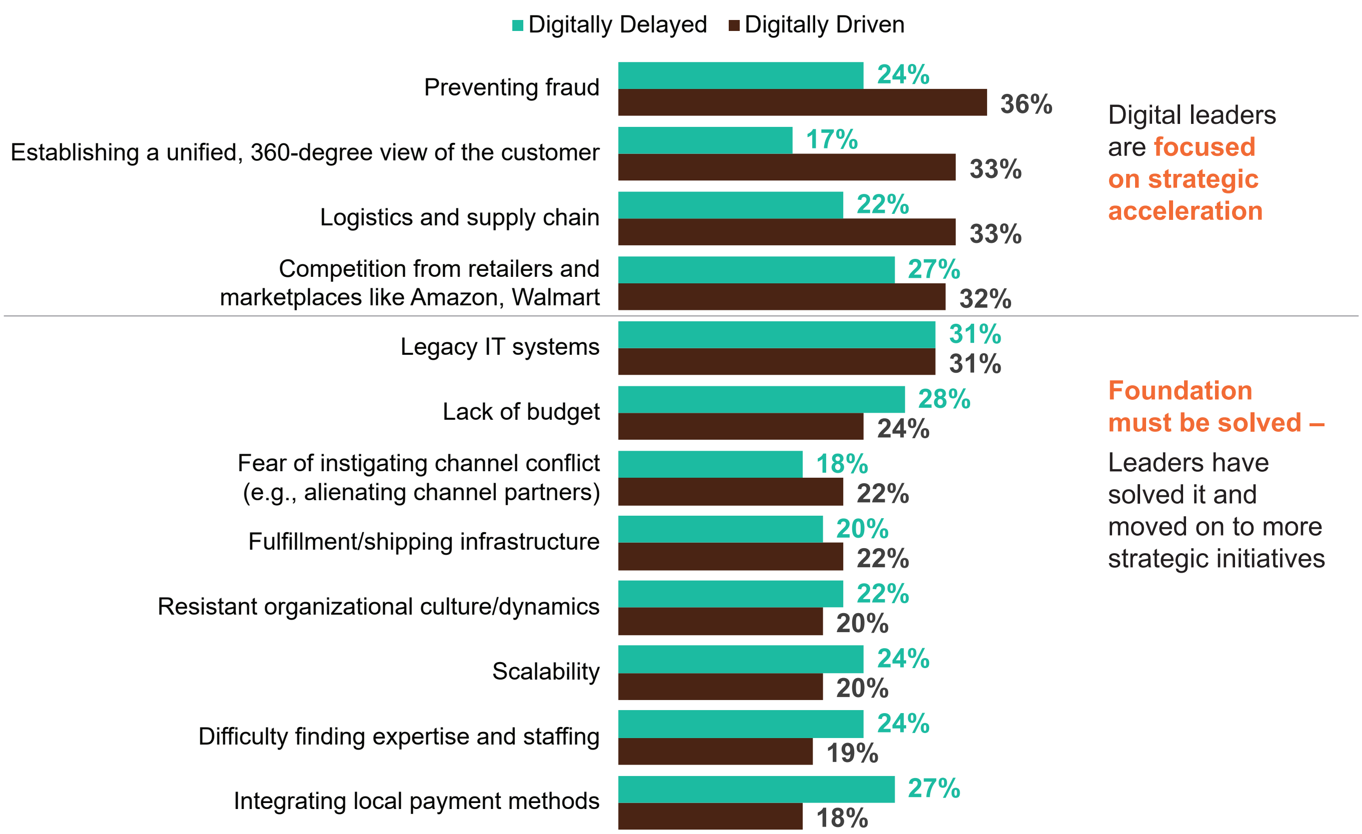
Because digitally driven enterprises have different business imperatives than those that are digitally delayed, they also face different barriers when executing D2C strategies. Digitally delayed organizations are hindered by foundational roadblocks that are generally a mix of resource constraints and organizational and technological challenges. In contrast, digitally driven businesses tend to face barriers that are more strategic in nature.

As Figure 9 shows, digitally driven companies' top barriers to their D2C efforts are preventing fraud (36%), establishing a 360-degree view of the customer (33%), logistics and supply chain (33%), and competition from retailers and marketplaces (32%). Systemic impacts from COVID-19 have exacerbated several of these barriers to strategic acceleration, namely rising occurrences of fraud and disruptions to logistics and supply chains. Comparatively, digitally delayed businesses face top barriers that include legacy IT (31%), lack of budget (28%) and integrating local payment methods (27%).

Notably, modernizing payment infrastructure can address top barriers faced by both digitally driven and delayed organizations. Best-in-class payment platforms will help mitigate fraud and improve cross-channel visibility of customers while optimizing acceptance costs and streamlining payment method integration.

Figure 9: A mix of foundational and strategic roadblocks stand before D2C strategies

*Source: 451 Research*



# Conclusions

The pandemic has highlighted the critical importance of both creating and maintaining digital strategies that drive brand loyalty and engagement. It has also enhanced the importance of an omnichannel strategy while accelerating the evolution of consumption models. These factors underscore the growing importance of the D2C model, which has proven to drive consumer engagement and loyalty while affording brands the adaptability and flexibility needed to embrace increasing customer demands. When implementing a new D2C strategy or enhancing an existing one, we advise:

- **Prioritizing the six key initiatives that drive consumer engagement and loyalty.** These are fast shipping, loyalty programs, cross-channel buying options, streamlined payment experiences, responsive customer support and contextual experiences.
- **Building experiences that inspire trust and loyalty.** The pandemic has elevated consumer demands for various types of low- and no-touch purchase experience like curbside pickup and contactless payments. Enabling these options strengthens trust during an uncertain time, ultimately improving customer relationships.
- **Using payments as a lever for execution.** Effective D2C payment strategies provide consumers with choice at checkout, mitigate fraud and streamline the organization's ability to sell across channels and geographies. Addressing these requirements requires modern payment infrastructure that is built with the future in mind.

## Methodology

451 Research conducted two web-based custom surveys among 200 enterprise and 3,000 consumer respondents in both the US and Canada. One goal of these surveys was to better understand the prevalence of direct-to-consumer business models within digital commerce, delving deeper into the value of D2C and its influence over consumer loyalty. Another was to gauge consumer expectations and sentiments around shopping with D2C brands. Respondents of the enterprise survey included those with knowledge or influence over digital commerce and direct-to-consumer strategies across verticals such as general apparel, luxury, CPG, beauty and durable consumer goods (furniture, books, appliances, etc.). Respondents of the consumer survey included individuals aged 18-72 across all regions of the US and Canada.

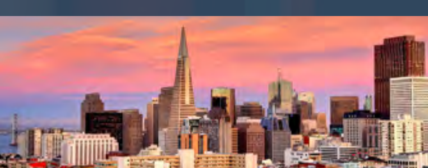
451 Research
Now a Part of
S&P Global Market Intelligence

# About 451 Research

451 Research is a leading information technology research and advisory company focusing on technology innovation and market disruption. More than 100 analysts and consultants provide essential insight to more than 1,000 client organizations globally through a combination of syndicated research and data, advisory and go-to-market services, and live events. Founded in 2000, 451 Research is a part of S&P Global Market Intelligence.

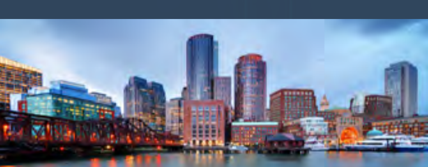


**NEW YORK**
55 Water Street
New York, NY 10041
+1 212 505 3030



**SAN FRANCISCO**
One California Street, 31st Floor
San Francisco, CA 94111
+1 212 505 3030

**LONDON**
20 Canada Square
Canary Wharf
London E14 5LH, UK
+44 (0) 203 929 5700



**BOSTON**
75-101 Federal Street
Boston, MA 02110
+1 617 598 7200