MMA INDIA | PUBLICIS COMMERCE

Present

D2C ADVANTAGE X TOOLKIT

Guide to Maximize ROI of D2C eCommerce Investments

Knowledge Partner – Google India

Co-powered by

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Foreword

Anupriya Acharya
CEO, Publicis Groupe India

Direct-to-consumer (D2C) has the potential to be a huge growth driver for companies. India's eCommerce sector is on a meteoric rise and is currently projected to hit a staggering $400 billion by 2030. Of this, one of the fastest growing segments is D2C, which captures 42.9% of the eCommerce investments in India. If D2C is done right, companies could see multiple advantages, such as enhanced revenue streams, better assessment of consumer demand and thereby supply chain management, valuable data and insights, a deeper understanding of consumer tastes and preferences, agility in innovation, and speed in execution. At a time when there is so much spotlight and focus on developing first-party data mechanisms, D2C channels are the best way to understand your end consumer and bring in seamless, optimised, rich, and personalised commerce experiences.

However, in a joint survey conducted by Publicis Groupe India and MMA Global India, we discovered that 80% of D2C ventures have yet to achieve profitability. The top three key challenges in scaling D2C businesses in India are high customer acquisition costs, operational complexities, and unclear ROI. Recognising the potential of digital in India, many of the traditional retail and FMCG players have also started to launch their D2C businesses. For such businesses, revenue from the standalone D2C channel starts small, growing over time. Based on our primary survey of established traditional businesses having their own D2C channels, 60% of respondents noted revenue from standalone D2C businesses to be less than 5% of their overall eCommerce revenue.

The need of the hour then is for brands to commit to a long-term vision with a clear path to scale and profitability.

Which is why Publicis Groupe India and MMA Global India have come together at the apt time to launch the report '**D2C Advantage X Toolkit** – Guide to Maximise ROI of eCommerce Investments,' which presents a comprehensive view on the value proposition of D2C, considerations for profitability, and the strategic path to success for brands. The report is tailormade for the C-suite and brand leaders, outlining path to D2C profitability by unlocking value through new consumer insights, personalised experiences, and augmenting consumer mindshare.

Certain companies have however implemented D2C strategies very successfully on the back of technology.

Hindustan Unilever (HUL) has expanded its Direct-to-Consumer (D2C) enterprise with 16 brand.com websites, including its platform UShop on ONDC and facilitating hyper-local commerce via the Shikhar Seller app. Digital channels now contribute 30% of HUL's product demand.

The 'ITC e-Store,' ITC's specialized D2C platform, operates in over 24k PIN codes. ITC's D2C strategy focuses on generating insights for various brands and enhancing consumer value through thoughtful integration into their lives, prioritising profitability and self-sustainability.

L'Oréal has undergone a transformative shift from a conventional beauty entity to a beauty technology powerhouse, exemplified by its acquisition of ModiFace, an augmented reality company renowned for its consumer engagement tools like virtual try-ons, skin diagnostics, and smart mirrors.

The experiences and learnings of these companies can translate into powerful insights for others to follow.

The fact remains that while many have begun D2C channels, in order to rapidly scale up, differentiate themselves from the pack, and innovate, brands need to invest in technology architecture, platforms and builds, optimizing supply chains, marketing content and automation, seamless user experiences, and leveraging emerging levers such as live and social commerce, AR for immersive commerce experiences, and AI/ML, which are all areas that Publicis Commerce India has demonstrated experience in. We hope that through this report, we can bring in unique insights and learnings from our expertise and experience and give a vantage point view on the evolving D2C and eCommerce spaces.

The new-age consumer is very much OmniChannel, traversing between the real world and various digital platforms and devices. With the right kind of strategic planning for D2C and complementing it with the right eCommerce channels, brands are sure to see huge success. However, in scaling up commerce and particularly D2C, brands need clear, well-defined, and differentiated strategies. We are sure that our report will go a long way in helping brands adapt and innovate on D2C, reinvent existing commerce models, and keep their businesses responsive and resilient.

Foreword

Moneka Khurana
Country Head, MMA Global India

D2C Advantage X Toolkit, as it's called- wondering what exactly advantage "X" represents in the name? "X" is not just a variable; it is a reinforcement to unveil possibilities that await us within the D2C ecosystem. This guide is an attempt to help maximise D2C value in commerce-led growth. Our survey found that a mere 12% of D2C businesses in India declare themselves to be profitable. What distinguishes them? Businesses that have made a success of D2C have done it through complete utilisation of its potential and leveraged it to win in the larger ecommerce play.

The path to profitability for D2C businesses is quite challenging when viewed on a standalone basis, but the true value of D2C investment is unlocked when insights from D2C are married with the overall eCommerce business. In a conservative estimate, when done right, D2C businesses have potential to deliver 8%+ operating margin consistently. As we embark on the cookieless journey, D2C is the most potent way to build first-party consumer data. The data garnered in turn can deliver a 4%+ lift in overall D2C revenue, as per the study. Hence, to untap its full value and growth potential, D2C brands must have a structured roadmap.

MMA Global India, through its eCommerce Council, continues to provide ways to build an overall understanding of the commerce landscape. D2C is a key focus area given its integral role in the OmniChannel strategy, clubbed with an opportunity for brand-building and content-driven commerce. We hope this playbook will significantly redefine the value of D2C in eCommerce play more than ever before and help unlock it. The report is also a reminder that Advantage 'X' is not just a name but a call to action for all of you to explore its untapped potential in its entirety.

Summary

Direct to Consumer (D2C), is one of the key eCommerce channels adopted by businesses. In the recent past, D2C has been steadily gaining prominence as an eCommerce play. In 2022, nearly 42.9% of eCommerce funding in India went to D2C businesses, overtaking marketplaces as the most funded eCommerce sub-sector. Further, legacy brick-and-mortar businesses are launching D2C channels as part of their OmniChannel strategy.

However, several challenges remain in scaling up D2C businesses in India. Businesses are bogged down with high consumer acquisition costs, operational complexities, and unclear ROI. As a result, the majority of D2C businesses (as a standalone channel) in India struggle to attain profitability.

In our research, we explored various sources of value for D2C businesses. We came across a few D2C businesses, that have managed to crack the code to profitability.

All these businesses have managed to deliver incremental value from their D2C channel by generating consumer insights, driving product innovation based on data & insights from D2C, and creating a net positive mindshare for their brands. By adding the incremental value generated through these sources, some of these D2C businesses have delivered consistent profits.

The focus of this report is to explore the path to profitability for D2C businesses. The report is primarily aimed at businesses having an OmniChannel strategy (including D2C) and legacy brick-and-mortar businesses adopting D2C as a strategic growth channel. While preparing this report, we conducted our primary research on various aspects of running a D2C business. We interviewed business leaders on their key learnings for maximizing value from D2C businesses in India.

While out-and-out D2C success stories are few and far between, successful D2C businesses consistently demonstrate a few common traits such as:

Start with a clear business proposition:

Successful D2C businesses are clear about their unique proposition to consumers, whether it pertains to products, experiences, or operations. A razor-sharp focus on consumer needs, coupled with a rapid test-and-learn approach, is required to zero in on the unique proposition of the brand.

Set right North Star metrics and organize entire governance around them:

Successful businesses not only set the right North Star metrics but also align their entire organization (through structure, incentives, etc) around them. While North Star metrics may vary based on the life stage of the business, an unwavering focus on sustainable growth came across as a common metric at each stage.

Deliver seamless consumer experience:

In this day and age, a seamless consumer experience is considered hygiene. Successful D2C businesses maintain an unwavering focus on consumer experience across all aspects of the customer lifecycle, including acquisition, onboarding, product discovery, personalization, transaction, service, and loyalty. They consistently analyze end-to-end consumer journeys, identify breakages/ pain points, and devise ways to address them.

Invest in 1P data for future:

D2C businesses are yet to realize any immediate material benefits from 1P data. However, successful businesses are and must continue investing in 1P data as insurance to drive effective marketing action in the 'cookie-less' world.

Focus on impactful creatives:

Consistent high-quality creative assets go a long way, not just in building mental availability but also in conversion. Consistent high-quality creatives perform better across all consumers vis-a-vis fancier dynamic creative optimization (DCO) without any consistent messaging.

In this report, we delve deeper into the opportunities and challenges presented by D2C as a channel. We will explore the overall value proposition of investing in D2C strategy. Furthermore, we delve into the considerations and capabilities required to make a profitable D2C venture.

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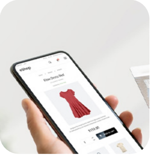
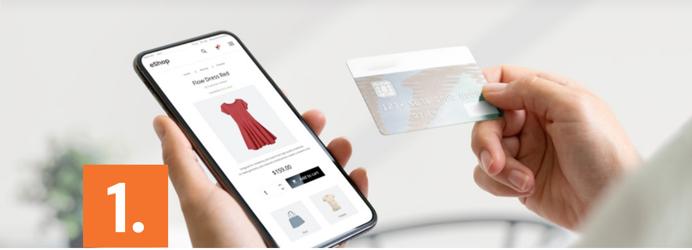




eCommerce in India is Experiencing Turbo Growth

India is currently witnessing a remarkable surge in eCommerce growth and is projected to expand at a rate of 19%, reaching USD 400 billion by 2030[1].

Boasting the world's second-largest online shopper audience, India follows China, which has over 900 million shoppers, while the United States ranks third with more than 200 million online shoppers[7]. Given robust GDP growth, increased disposable income, and growing rural consumption, eCommerce in India is positioned to be a substantial beneficiary.

Emerging consumer trends[14], such as a more balanced gender ratio (45:55 male to female), shifting geographical preferences towards tier-2/ tier-3 towns, and comparable spending power in smaller towns and larger cities, are expected to fuel continued eCommerce growth. Tier-2+ cities are poised to be the next growth engine for Indian eCommerce, as Tier-1 cities have reached saturation. This growth would be driven by supply-side innovations like vernacular-based user interaction and voice and visual search.

There are five factors driving this growth in Indian eCommerce.

1.1 Increasing household income fueling consumption

As per the eConomy India 2023 report[7], India's per capita GDP is likely to grow from the current **USD 2,500 up to USD 5,500 by 2030.**

Further, the number of households with upper middle income (Rs 5 lakhs – Rs 30 lakhs annual income) and high income (annual income > Rs 30 lakhs) is likely to grow from **117 million in 2022 up to 200 million by 2030.**

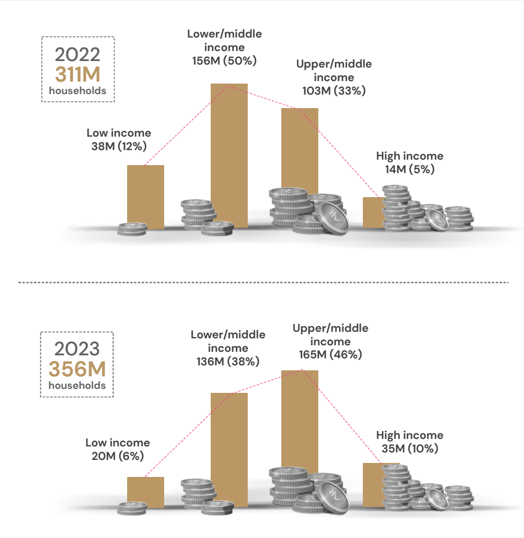


Chart 1.1 Distribution of households by income level

Notes: *Low income: <1.25L; Lower middle income: 1.25-5L; Upper middle income: 5-30L; High income: >30L base income per household (₹ at 2020-21 prices) per annum; Household expenditure is per capita expenditure by class multiplied by the average household size for that class; India's total income is based on ~$3T in 2022 and ~$5.1T in 2030.*

Source: eConomy India 2023 report[7]

1.2 Rapidly improving digital literacy

Affordable mobile internet, pioneered by Reliance Jio, has ushered in a digital revolution in India.

India now boasts of ~700+ million internet users, and the number is increasing rapidly.

Gradually, Indian consumers are getting comfortable with using digital channels for regular transactions.

Beyond transactions, consumers are also spending a significant amount of time on digital engagement and entertainment (see chart 1.2). All of this adds up to digital literacy, trust, and comfort to drive eCommerce.

For example,[7] over the last 12 months:

~350 million have used digital payments

~220 million have shopped online

~65 million have ordered food online

~80+ million households have paid utility bills online

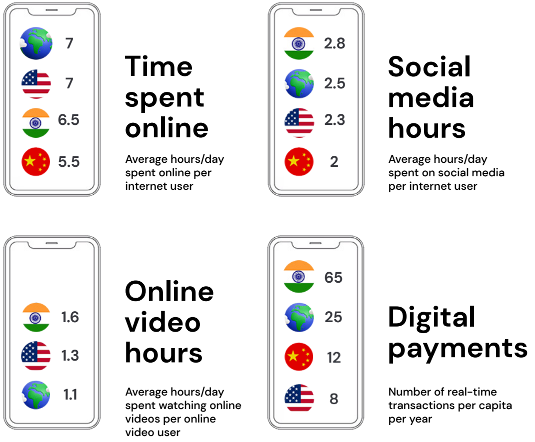


Chart 1.2 : Time spent on digital[7]

1.3 Digital public infrastructure

The Government of India has developed a set of technology building blocks, known as digital public infrastructure, for **safely and efficiently delivering economic opportunities** and social services to all residents.

The key elements of India's digital public infrastructure include:

IndiaStack

India Stack enables citizens, businesses, and the government to access a wide variety of online public services, including:

DigiLocker

Documents-on-demand:
Digilocker and e-KYC programs have enabled the digitization of the user onboarding process, allowing more and more services to be provided digitally.

Sahamati

Permission-on-demand:
The Sahamati program has provided a structured approach for data sharing between customers and financial institutions.

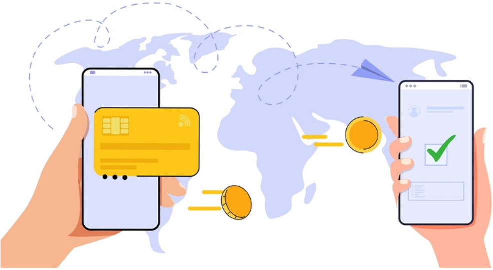
Authentication-on-demand:
The Aadhaar program assigns a unique digital identification to each citizen.

AePS RuPay UPI

Payment-on-demand:
UPI, AEPS, and RuPay programs have enabled seamless digital payments.

Six nations, including the Philippines, Morocco, and Ethiopia, are already using India Stack platforms. Several countries, such as Tunisia, Samoa, Uganda, and Nigeria, have expressed interest in adopting the technology.

The National Payments Corporation of India (NCPI) launched a subsidiary, NCPI International Payments, to export its offerings, such as RuPay cards and UPI, to overseas markets.



1.4 Vibrant startup ecosystem backed by private sector investment

India is privileged to have a vibrant startup ecosystem with **750+ funded startups** operating in the eCommerce space. Furthermore, the startup ecosystem is well-funded by a mature network of angel investors, venture capital, and private equity players.

Between 2014 and 2022, Indian eCommerce received a total funding of USD 31 billion, with an annual peak of USD 10.7 billion inflow in 2021[1]. While 2022 has seen a funding winter (relatively speaking), the total funding for Indian eCommerce startups has been a healthy **USD 4 billion.**

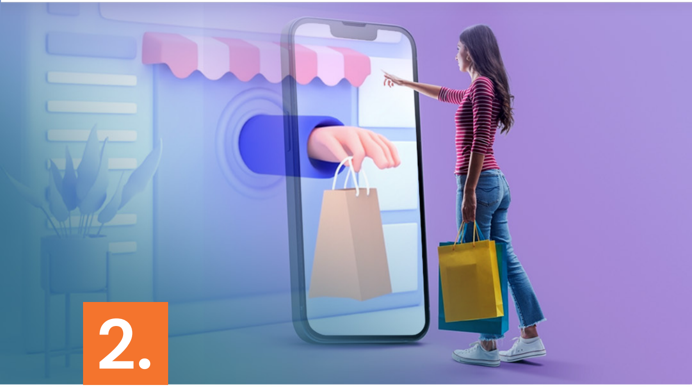
1.5 Technological improvements (multilingual, generative AI)

Recent technological improvements have played a significant role in the growth of eCommerce, especially in India. With the advent of smartphones and high-speed internet connectivity, **online shopping has become more accessible to people across all age groups and regions.**

India's eCommerce ecosystem has seen a significant transformation over the past few years, with the emergence of major players such as Amazon, Flipkart, and Paytm Mall.

The integration of AI and machine learning algorithms has helped these platforms personalize the shopping experience for customers, providing them with relevant recommendations and offers. Furthermore, advancements in logistics and supply chain management have made it possible for eCommerce companies to offer faster delivery times and better inventory management. All of these technological improvements have contributed to the growth of eCommerce in India, and the trend is expected to continue in the coming years.

Emerging trends[14] such as voice search, vernacular language usage, generative AI, AR/VR, etc. are expected to elevate the customer experience further. While voice search is still at a nascent stage in India, the usage of voice assistants such as Amazon Alexa, Google Assistant, Apple Siri, etc. is becoming more widespread among Indians, and user demographics are fairly distributed across young adults, working professionals, and teens. Voice is rapidly growing into a preferred medium of input across channels such as Search, YouTube, etc. Vernacular internet users, specifically, find voice a more natural way of interacting with technology, which helps reduce friction. 72% of internet users in India prefer non-English languages and Hindi being the 2nd biggest language on Assistant globally after English.



2.

OmniChannel eCommerce Strategy

With the evolution of digital, eCommerce distribution channels continue to fragment. Marketers today need to manage multiple eCommerce channels such as marketplaces, social media, business messaging, D2C, and brand websites. Marketers face the unenviable challenge of creating and sustaining the distinctiveness of the brand while delivering healthy revenue growth and margins.

At a fundamental level, delivering a distinctive consumer experience depends on the amount of control marketers have over all aspects of the brand, including product design, pricing, promotions, assortments, data, distribution, and experience.

At the same time, given a fixed upfront customer acquisition cost, the margin potential becomes a function of customer lifetime value (cLTV).

Below is a conceptual map of possible channels across the above- mentioned dimensions.

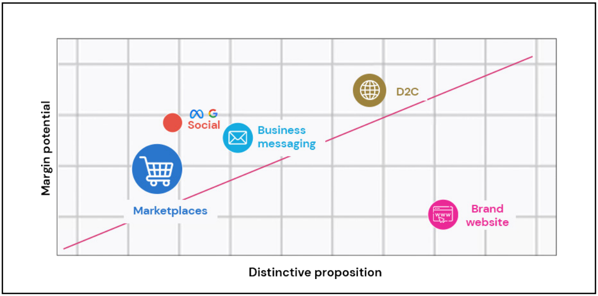


Chart 2.1 - eCommerce channel mapping

Notes:

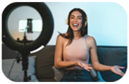
- *On the Y-Axis, we plot the margin potential (the function of cLTV).*
- *On the X-Axis, we plot the brand consumer experience potential (function of level of control on data, product, bundling, distribution, experience, pricing, etc.) available to the marketer.*

- *The size of the bubble represents the relative revenue potential of each channel.*

Below are specific behaviors and various trade-offs marketers encounter while managing each of the eCommerce channels:

Marketplaces

The scale of marketplaces enables them to subsidize distribution costs, resulting in both higher reach and better margins. On the other hand, all brands get represented in a sea of sameness, allowing very little opportunity to create distinctive offerings, more so than even a modern retail outlet would. There is also overt pressure to be competitive on the platforms, as category advertising is highly visible through data availability.



Social commerce

As an upcoming channel, there is a significant opportunity for brands by associating with the right kind of influencers for product recommendations. On the downside, there are questions being raised about the power of influencers and their ability to influence a purchase.

D2C

From unparalleled access to consumer behaviours to vast opportunities for experimentation, D2C models create several advantages for today's brands. Brands can reach customers directly, and gather first-party data on traffic and conversion rates, test new product development, and run A/B tests on promotions, content, and marketing. It allows for creating a tailored brand experience for consumers, thus allowing us to create imagery about the brand that is distinct from the category. This experience can range from pure product to pure service and anything in between. However, given the nature of a one-to-many service model, cost of running a D2C along with the increased complexity, can be prohibitive in most cases. (Business messaging forms a subset of D2C.)

Brand website

Brand sites are probably the oldest model by which brands have connected with consumers online. These are great places for consumers to gain more information on products and also interact with the brand. Given they are very brand-specific, just turning them into commerce-friendly is not very scalable, so in many cases, the journey is completed on a D2C or marketplace.

Typically, brands do not have to choose one eCommerce channel or the other; they could consider a hybrid approach to using multiple platforms if it fits their brand strategy for creating the right consumer experience. Do consider the brand's overall eCommerce and customer experience strategies, as well as the resources available internally in terms of expertise and investments. Marketplaces help brands target more price-driven consumers for a range of products with a relatively lower ASP while ensuring quicker speed to market and a relatively cheaper method of online selling.

It is also a good option for organizations with fewer internal resources to manage their stores, looking to test the market and/or agile expansion across markets. On the other hand, Brand.com stores are suitable for brands that are looking to bring alive the brand imagery or purpose through a superior consumer experience and hence build a competitive advantage in the long run. Organizations would need to evaluate and choose the appropriate model from a wide range of D2C commerce storefront models based on strategic fitment with their goals and aspirations.

D2C must co-exist alongside other channels such as marketplaces and OmniChannel approaches since each channel plays a distinct role in boosting sales. However, organizations must thoroughly assess the financial feasibility of the chosen D2C models to establish a scalable and sustainable offering.

3.

D2C as a Commerce Channel

D2C (direct-to-consumer) is a channel through which a brand can have a one-on-one relationship with the consumer. This relationship allows them more control over various aspects of the customer experience, including pricing, branding, marketing, and data collection.

Why businesses invest in D2C channel?

Over the years, many businesses have added D2C as a channel to augment their existing presence in general trade, modern trade, eCommerce, etc. The advantages of having a D2C channel are as follows:

Data ownership

Brands do not need to share data with third-party platforms as they conduct business directly with consumers.

Faster adaptation

Customer feedback, market trends, emerging technologies, and other variable factors won't weigh down D2C businesses. On the contrary, brands could adapt swiftly due to the nature of business.

One-on-one consumer relationship

As the business caters to the customer directly, a one-on-one relationship can be established between the brand and the consumer, which, in turn, increases engagement and loyalty.

Customization and personalization

The D2C channel allows for easier customization of products, services, and experiences, as brands can directly respond to individual customer preferences and needs.

During our research, we looked at multiple levers that generate value in a D2C business. Below are the priority levers identified:

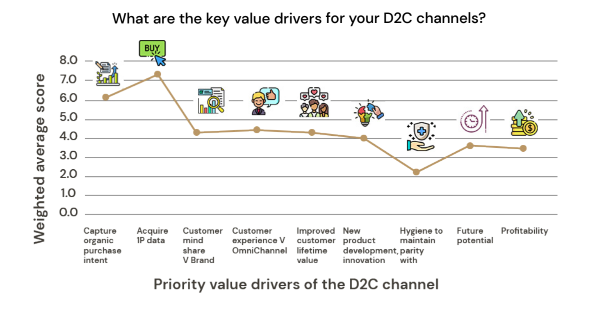


Chart 3.1 - Priority value drivers for the D2C channel

Customer data and insights

Because D2C channels interact with consumers directly, the data gathered helps brands make more informed decisions. Based on our survey, the acquisition of first-party consumer data received the highest weighted average score towards driving value on the D2C channel.

Control over branding

An owned D2C channel enables marketers to have complete control to over delivering consistent brand tonality and direction. This helps marketers capture organic purchase intent (a weighted average score of 3.5) and win customer mindshare (weighted average score of 3.2).

Distinctive customer experience

An owned D2C channel permits marketers to gather data and understand consumer behaviour better. Using consumer insights and proprietary data, marketers can deliver distinctive experiences to their customers on the D2C channel.

Product innovation

New ideas and variations can be introduced via the D2C channel.

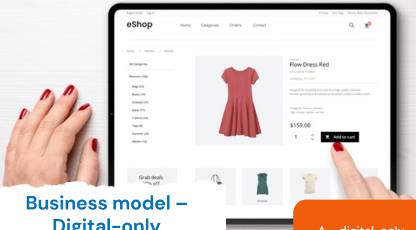
Pricing control

Pricing of products and services can be controlled by taking parameters like target audience and demographics into consideration.

D2C businesses come in multiple archetypes. The major strategic choices for D2C businesses are as follows:

- Digital-only vs OmniChannel
- Single-brand vs multi-brand D2C

3.1 Digital-only vs OmniChannel



Business model – Digital-only

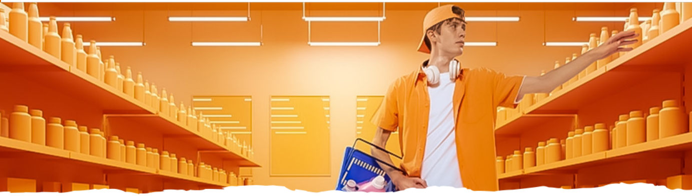
Digital-only D2C models require relatively lower upfront capital expenditure to get started. Most D2C businesses start in the digital-only channel before expanding to other commerce channels such as general trade, modern trade, owned offline stores, etc.

A digital-only channel allows businesses to get started with minimal upfront costs, rapidly iterate to get product-market fit, and understand customer and channel partners. In this phase, businesses typically focus on customer experience and product refinements.

For example, Bombay Shaving Company was launched in 2016 as a digital-only route for the premium grooming segment. Later in 2021, after establishing product-market fit and obtaining a critical mass, they adopted an OmniChannel strategy with both digital and offline sales channels.

BOMBAY SHAVING COMPANY™

At this stage, businesses rely heavily on digital marketing, and influencer marketing (as opposed to mass media) to drive growth.



3.2 Business model – OmniChannel D2C

Recognizing the potential of digital in India, many of the traditional retail/ FMCG players have started to launch their D2C businesses. Such businesses leverage their existing network of general trade, modern trade, and owned stores to launch OmniChannel businesses from the start.

For such businesses, revenue from the standalone D2C channel starts reatively small, growing over time. Based on our primary survey of established traditional businesses having their own D2C channels, **60% of respondents noted revenue from standalone D2C businesses** to be less than 5% of their overall eCommerce revenue.

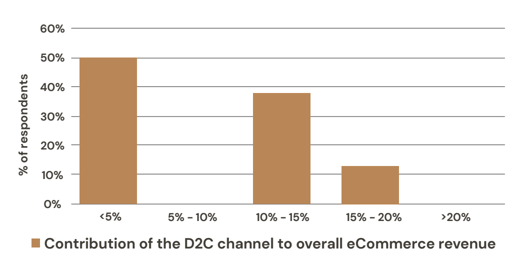


Chart 3.2: Share of standalone D2C as % age of overall eCommerce revenue [for traditional retail businesses having D2C channels]

Given below are other key considerations for Digital-only D2C businesses vs Traditional retailers with OmniChannel D2C businesses:

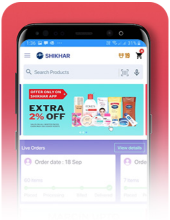
Digital natives vs traditional FMCG companies

	Digital natives	Traditional FMCG companies
Market segments	Niche areas • Underserved areas (e.g. Licious) • Specific need space (e.g. Mamaearth)	Mainstream • Daily needs/ centre of plate • Multiple categories
Price position	High AOV/gross margin • Bridge to luxury (e.g. WoW) • Discount to high-value categories (e.g. Boat)	Complete pricing pyramid • Mass (Wheel) • Prestige (Rin) • Premium (Surf excel)
Advantages	Digital-first • Digital marketing • Data-led	Economies of scale • Strong brand power (SoV-SoM) • Massive reach at very low costs
Challenges	High-cost structures • Customer acquisition cost • Supply chain scale	Agility • Defend/grow existing business portfolio • Different investor expectations
Operating profit	Negative to 5%	15-25%
Growth story	Internet penetration, eCommerce channel, pandemic	Demographics, low penetration, rural potential
Headwinds	Tightening liquidity	High inflation

Source: Accenture

Chart 3.3: Key considerations for digital-only vs OmniChannel D2C businesses

Newer business models are being enabled by digital public infrastructure such as the Open Network for Digital Commerce (ONDC). ONDC democratizes eCommerce by decoupling product discovery from distribution and delivery. For example: Hindustan Unilever Limited (HUL) launched the Shikhar Seller app to connect consumers to their Kirana network over ONDC. Consumers can order HUL products through any ONDC buyer app and, local Kiranas in their vicinity will deliver the product to the consumers.



To know more about ONDC, check out our earlier report on ONDC – Decoding ONDC: Perspective for Marketers.

ONDC Open Network for Digital Commerce

3.3 Single-brand vs multi-brand D2C

Furthermore, D2C businesses need to make another strategic decision: whether to carry a single brand or multiple brands. Below are some of the key considerations while deciding between single vs multi-brand approach on D2C

Chart 3.4: Single-brand vs Multi-brand D2C

Challenges faced by D2C businesses in India

Running a D2C business comes with several challenges. A few critical areas to address are enumerated below. Based on our recent survey[10] among D2C businesses in India, **nearly 80% of D2C businesses are yet to be profitable.** Furthermore, the same survey identified the below top 3 key challenges in scaling D2C businesses in India:

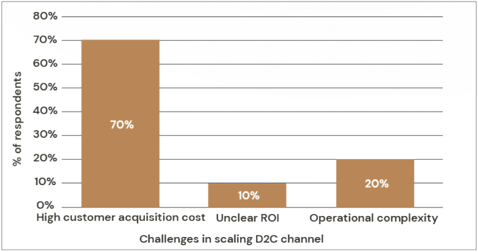


Chart 3.5: Key challenges of scaling D2C businesses in India

Through our research, we tried to analyze each of the challenges in depth. Some key observations are mentioned below:

Customer acquisition cost

Acquiring customers through digital channels can be expensive, especially in highly competitive markets. Unlike marketplaces (with high organic traffic), D2C brands need to compete in a crowded market to stand out. Organic discoverability, influencer modelling, and viral engagement tactics are potential levers, but they have long gestation periods and are limited by scale.

Unclear ROI

Due to the above challenges, D2C businesses often require high upfront capex, without clear ROI when assessed as an independent P&L.

Operational complexity

Pricing

Ensuring parity pricing in a dynamic marketplace environment. Most marketplaces use an automated approach to pricing by using scrapers to pull prices of products on different sites and automatically match them.

Delivery

Speed of delivery is always on challenge for a D2C primarily because of last-mile connectivity to a consumer. While matching delivery time to marketplaces is difficult to achieve, this can be made up through customising the delivery experience.

Supply chain + Inventory management

Supply chain management needs consistent product quality, availability, and timely delivery and these factors are affected if products are sourced from multiple suppliers or if the business sees exponential growth. Similarly, maintaining a brand inventory needs to be monitored keeping in mind order processing, shipping, and returns as these factors can be complex and disrupt customer relationships.

4.

Business Case for Investing in D2C

As described above, attaining profitability in a standalone D2C business is indeed challenging. Only 1 out of every 10 D2C businesses in India is profitable. While researching for this report, we explored various costs of running a D2C business.

Below chart describes various cost headers of D2C as % of revenue.

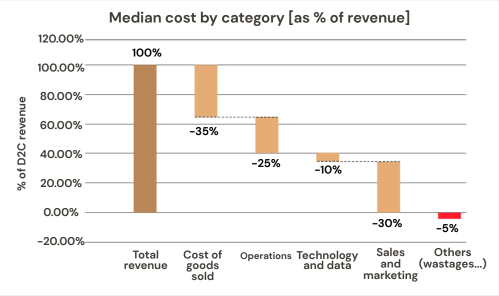


Chart 4.1: D2C costs – Median spend by category as % of revenue

The above chart presents a grim picture. In the majority of cases, we found the costs of running a D2C business exceeded the standalone revenue from the D2C business. This makes the profitability of standalone D2C businesses elusive. As a result, marketers typically struggle to make a business case for investing in D2C businesses.

However, successful digital brands approach value generated from D2C a bit differently. They recognize that beyond the standalone revenue, D2C business contributes to overall eCommerce revenue in 3 major ways:

#1

Develop consumer insights:

D2C helps capture first-party data on consumers, and their behavior.

#2

Augment customer mindshare, brand building by driving engagement, loyalty and trust.

#3

Innovate on product:

Leverage organic purchase intents for product testing and feedback, designing proper assortments, product bundling and even at times new product testing.

The majority of successful D2C businesses we encountered usually find ways to recognize the value generated from the factors mentioned above and attribute it to D2C business cases.

Let's delve deeper into each of the aforementioned levers of the D2C channel and understand how they contribute to overall eCommerce revenue.

4.1 Develop consumer insights

As described in the chapter 1 of this report,

India boasts of
700+ million
potential consumers online and the number is slated to grow further

Out of this population,
~350 million
consumers have made digital payments

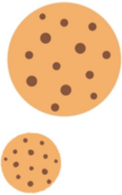
~220 million
consumers have shopped online

A sizable number of young populations are digital natives and their purchasing decisions are influenced by how brands engage with them online.

Cookies

At the same time, the traditional 'cookie' based approach for consumer segmentation and targeting is getting phased out.

Google has announced the deprecation of third-party cookies from Chrome browsers in 2024.



Other major browsers are already restricting if not fully deprecating third-party cookies. While there are a few emerging players offering identity resolution services as an alternative to cookie-based targeting, the solutions are not foolproof.

In such an environment, having first-party consumer data emerges as the primary de-risking strategy for brands.

Accept | Preferences

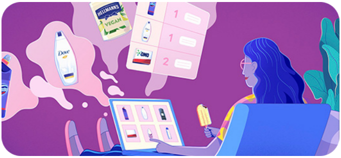
D2C channels provide the best way to capture first-party consumer data.

Further D2C channels provide rich consumer shopping behavior data, which can be used to enrich 1P data with brands. Successful D2C businesses use 1P data in multiple ways such as:

1. Personalizing shopping experiences for consumers.
2. Driving product innovation through consumer insights (e.g. bundling, assortments, pricing).
3. Targeting relevant consumers on media (e.g. look-alike modelling).
4. Improving operational efficiency through better planning of the supply chain based on customer data (e.g. planning availability, delivery by PIN codes).

Given the evolving privacy landscape, organizations must now seek improved methods to understand their customers, provide personalized experiences, and enhance performance and efficiency in media.

For example, HUL has established a centralized team dedicated to overseeing first-party data across its brands, aiming to harness a comprehensive understanding of consumers through a 360° view.



This approach involves analyzing consumer behaviour patterns across various categories, enabling the personalization of consumer experiences. The primary objectives include enhancing engagement, fostering loyalty, and increasing market share, in addition to improving transactional performance.

To give an instance, for a campaign with the objective of driving trials of a new category in homecare, 1P delivered 150% better efficiency and 2.2x higher CTR vs 2P[15].

In our research, incremental business value attributed to these new consumer insights (on the back of D2C business) ranged from

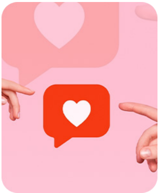
0%-12% of D2C revenue, with a median value of 4%

4.2 Augment consumer mindshare

> *"Brands need to constantly strive for mental and physical availability to remain top-of-mind with consumers."*
>
> *How Brands Grow, Byron Sharp*

Owned D2C channel strongly augments in establishing both mental and physical awareness of the brand. Successful D2C businesses employ the following levers to generate mental and physical availability through their D2C channels.

Levers for D2C channel towards creating mental availability:



- Rich consumer engagement – examples live commerce, QR codes for online to offline connects.
- Loyalty, personalized rewards, referrals.
- Running specific campaigns, linking campaigns to target consumer value systems (E.g. sustainability, equality, etc).
- Generating trust in the brand, especially for newer brands with limited / no offline presence.

In our research, incremental business value attributed to this increased consumer mindshare due to investment in D2C channel ranged from

1%-12% of D2C revenue, with median value of 5%.

Levers for D2C channel towards creating physical availability:

- Personalization – dynamic content, offers tailored for each individual
- Convenience of on-demand shopping
- Ability to customize products to individual tastes and beliefs
- Ability to make a long tail of products available for shopping

4.3 Innovate on product

The D2C channel is an effective test bed to not only understand consumer preferences but also drive product innovations. For example, Yogabar (part of ITC Foods) launched "Protein Peanut Butter" variant in response to market gaps and taking quick product feedback.

There have been other examples, where successful businesses use D2C channels to run product experiments across service (e.g. free shipping), and assortments (e.g. frequently bought together recommendations).

In our research, incremental business value attributed to such product innovations enabled by D2C channel ranged from

1%-8% of D2C revenue, with a median value of 4%.

The table below summarizes some of the actions D2C businesses take across these three dimensions based on their maturity level.

Capability	Maturity level>>	Crawl	Walk	Run
Develop consumer insights	First-party data collection	Website login	Newsletter/ content-based lead collection, gamification on site (spin the wheel, card matching)	Off-site data collection and gamification offsite partnership (Paytm data enrichment)
	Data enrichment	Individual data sources, basic customer profiling, basic segmentation capabilities, consent & privacy management	Data lake, CRM & ERP integration, cross-channel attribution, behavioral segmentation	CDP, predictive analytics, advanced customer profiling, CLV measurement
	Data utilization	Look-alike campaigns, cross-sell	Personalized recommendation, bundle creations based on basket	AI-led CRO (ex: Performics funnel solution)
	Analytics & reporting	Magento/ Shopify reporting, GA4/ Adobe Analytics	Power BI dashboard for detailed deep dives within category & geographies	Content square
Augment consumer mind share	Shopping experience	Mobile responsiveness, user-friendly navigation and search capability, secure checkout process	Customized products, rich media & interactive PDP, enhanced product filtering, personalised product recommendations	AR product viewing experience, personalized experiences, live shopping, WhatsApp commerce integration, subscription option, dynamic pricing and real-time offers, smart search, and voice commerce
	Media	SEO, social media presence, targeted media campaigns, UGC & basic influencer collaboration, affiliate partnership	Segmented email & WhatsApp marketing, influencer marketing, storytelling-focused content marketing, strategic partnerships with channels outside of core media channels like Cred, PhonePe	Personalized messaging, AI powered interactive video content campaigns (Shahrukh Khan DF ad) integrated media, shoppable media commerce
	Engagement	Blogs & education video content	Loyalty programs, referral program, chatbot (FAQ, order status & support), interactive learning section	Video commerce, community building using video podcasts, generative AI bots for commerce, and educational
Innovate on product	UI/UX	Standard UI/UX templates	Hypothesis-based A/B testing for CRO (Adobe, Target, etc.)	AI-led CRO (ex: Performics funnel solution)
	Fulfilment	2-day delivery	Same-day delivery, tracking notifications	1-hour delivery, live tracking
	Checkout	Basic payment gateway	Bank offers, COD, BNPL Integrations	Headless checkout

Chart 4.2: Cheat sheet – Value generators for D2C business

In this section, we explored the challenging path to profitability of D2C businesses when viewed on a standalone basis. However, the true value of D2C investment is unlocked when we integrate insights from D2C with the overall eCommerce business

In our conservative estimate, when done right D2C businesses have the potential to deliver 8%+ operating margin consistently.

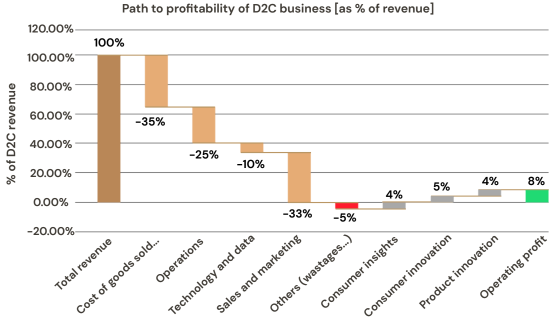
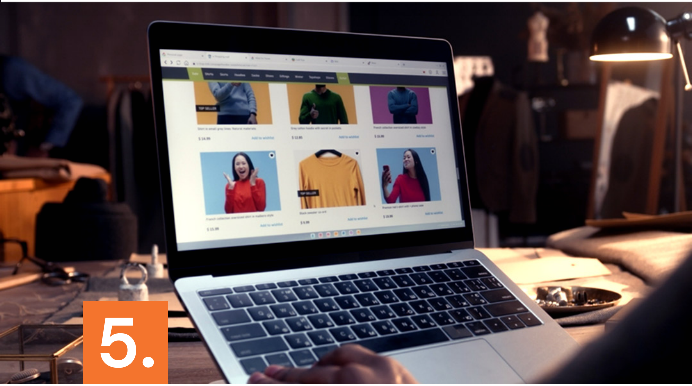


Chart 4.3: D2C path to profitability

In addition, successful D2C ventures unlock significant value by optimizing operations. However, since the benefits of operational optimization vary widely across industries, we have not included this particular lever in the chart above.



5.

Five Key Insights for eCommerce Leaders to Maximize Value Out of D2C

While preparing this report, we interacted with several D2C businesses and carried out both primary and secondary research on factors that lead to successful (defined as consistent growth with profitability) D2C businesses.

We identified four consistent themes across all reasonably successful D2C businesses:

5.1 Clarity of proposition

D2C business leaders must start with a clear business proposition. Successful D2C businesses zero in on and deliver their unique proposition to consumers, whether it's related to the product, experiences, or operations. In many ways, a **D2C venture is akin to launching another brand, and there must be a consumer need gap that we are leveraging.**

mamaearth™

For example, Mamaearth has created a niche in the beauty segment by offering products with natural and toxin-free ingredients.

The brand positioning is organized around this proposition and the same is reflected in their tagline **"Goodness Inside".**

Mamaearth has carefully selected brand ambassadors (Shilpa Shetty, Sara Ali Khan) and specific campaigns (such as **#Goodnessmakesyoubeautiful, #IssWinterglowNaturally,** Mamaearth for babies, etc) to reinforce this proposition of natural, toxin-free products.

"The purpose of D2C businesses must be clear. Is the D2C model bringing in new consumers which otherwise would not have been possible? Or is it introducing new efficiencies which complement your existing supply chain? One of the two questions must be addressed before you step into D2C businesses."

Video Link

Sujay Ray, L'Oréal

During our research, successful businesses consistently adopted below two approaches to obtain clarity in their D2C proposition:

Razor sharp focus on consumer behavior:

Successful D2C brands spend an inordinate amount of time and effort understanding consumer behavior. To understand consumer behavior these businesses not only focus on in-person interactions (such as focused group research, day-in-life-of analysis) but also **analyze digital buying behavior through analytics.**

A nuanced understanding of consumer behaviors enables brand managers to identify need gaps and target segments to design their brand's unique selling proposition.

Rapid test and learn:

Furthermore, D2C businesses adopt rapid test and learn approach to zero-in on the unique proposition of their brand and messaging.

Shivani Chopra
Head Marketing – Consumer PC & Peripherals, HP Inc. India

D2C eCommerce – Which brand wouldn't want to crack it?

The attraction of better margins, more control the customer, and her data for further account deepening – all seem like great reasons to get it right. But it often doesn't work out and it would be great to question why.

While all D2C starts with the right intentions mentioned above, there are a lot of issues that may cause it to fail – very often these appear with scale or the realisation that it isn't scaling as we would like it to. The error usually lies in not answering with clarity the imperative question that must be answered– what is the customer value proposition? And why will she buy from the D2C channel?

While a brand's objective in setting up the D2C channel is clear, it is an internally focused approach and does not start with the customer, as it ideally should. If we wish for a customer to choose our D2C channel, we must create enough joy in her experience. That joy could be across the spectrum of the consumer journey and her expectations from the shopping experience. The customer expectations online are exactly what they are in an offline retail experience.

These are still only hygiene factors, and hence they are "expectations". If these aren't built right, rest assured that the user will not purchase because someone else has already done this better.

1. Easy discovery of products
2. Recommendation of the right product to buy
3. Best prices & a range of choice
4. A seamless hassle-free buying process
5. Multiple payment modes and financing options
6. Quick delivery
7. Easy returns

Easy discovery is about a UI that is built with the consumer in mind and how she is thinking/searching. Technology buys often suffer from too much information that consumers need to make sense of and such high-involvement purchases always lead to complicated research and evaluation. Hence point 2) is somewhere a brand in technology could build a differentiation for their D2C channel – recommend what your user needs, not essentially the most expensive/the highest end or the best margin product.

The journey from selection to buying should be fast with only the right kind of upsell-bundling push. Another way to build attraction for users is to offer point 3) – an exclusive product range or pricing. While better margin structures may help this with scale, it erodes margin, as users are consistently comparing with 3P platforms. Thus, a better/exclusive range of products might be ideal, as it will also avoid pricing conflict amongst channels.

Points 5) and 6) are again hygiene as they have been enabled by other channels, namely 3P eCommerce and retail. Poor logistics, high delivery timelines, and lack of NCEMI can all turn customers away. Fix it with a partner – don't attempt what isn't your core strength. The reasons for customers to stay could then be increased service and support – better TATs, 24*7 helplines, set-up support, priority queues, etc.

While these points all help to build the D2C channel, given the need for customers to compare, the battle may still be lost to multi-brand 3P eComm or retail. Hence a brand must work on adding customer delight. Personalization through AI will likely play an important role here – it's just the way we are happy to be recognized at a shop we go to regularly and be given special treatment.

5.2 North Star metrics

No D2C business can survive for long unless it acquires a critical size. Therefore, all D2C businesses aim for growth at all costs. However, what differentiates successful businesses from the rest is the **focus on unit economics from the very beginning.**

During our research, we came across four key parameters to measure profitable growth:

Sales growth

Sales growth appears as a North Star metric in most businesses. Sales growth is a function of:

Traffic

Essentially tracks how unique customers land on your D2C website/ app. A function of brand awareness and engagement.

Conversion rate

Tracks the ratio of people visiting the D2C website/ app to people making actual purchases. Function of brand positioning/value, pricing, promotions, assortments, availability, and experience. Some businesses also measure repeat purchases or loyalty independently from conversion.

AOV

Average order value reflects the ratio of overall sales and number of units sold. AOV varies depending on the nature of the product or business.

Customer acquisition cost (CAC)

Represents the average sales, marketing, and promotional costs to acquire a new customer. Successful D2C businesses manage to reduce CAC consistently as they grow in size.

Customer lifetime value (LTV)

Customer lifetime value is computed as the average order value
* Average number of transactions
* Customer life span

Customer loyalty, engagement, churn rate, etc influence the LTV metrics. Usually, healthy D2C businesses aim for LTV in the range of 3X of customer acquisition cost (CAC).

Unit economics

Unit economics is best reflected by the ratio of operating margin and number of units sold. While computing operating margins, businesses must consider marketing and promotion along with the Cost of Goods Sold (COGS).

Successful D2C businesses, not just set the right North Star metrics but also organize entire governance around them. Governance can be manifested through organization structure, incentives, etc to measure (and reward achievement of) the North Star metrics. This way, the entire organization is aligned and works in unison to achieve the stated growth objectives.

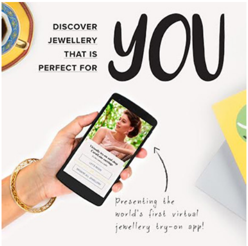
5.3 Differentiated experience

Successful D2C businesses consistently analyze end-to-end consumer journeys, identify breakages/ pain points, and devise ways to address those. They consistently test and iterate to improve customer journeys.

The latest innovations in artificial intelligence, augmented/virtual reality, and live video are opening up newer avenues to deliver seamless customer experience in digital.

Example 1: Caratlane[12]

CARATLANE
A Tanishq Partnership



Caratlane is one of India's largest online jewelery retailers. In their digital journey, they identified a significant gap in the customer journey – unlike in physical stores, consumers could not gauge the size of the jewelery they were buying online.

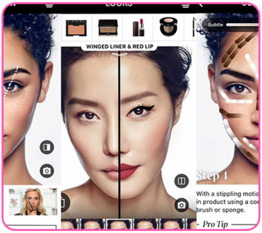
To address this problem, Caratlane introduced a virtual 3D jewelery try-on app. The app uses facial recognition and 3D imaging technology to help consumers visualize how the piece of jewelery looks on them.

This technology, integrated into the digital consumer buying journey, led to approximately a 20% increase in the earring business online

Example 2: L'Oréal[14]

L'Oréal has been at the forefront of leading and pioneering digital-first strategies, transforming from a beauty company to a beauty tech company. In 2018, L'Oréal acquired ModiFace – an AR company that specializes in building consumer experience tools in the beauty category such as virtual try-ons, skin diagnostics, and smart mirrors in stores amongst others.

In 2020, L'Oréal launched new AR-based digital services like virtual try-ons during live streams, beauty consultations, and Live Shopping.



ModiFace, implemented on 23 brands in 80 countries, achieved significant results: 1 billion consumer visits, 2X-5X users during the lockdown, and a 1.25X to 2X increase in conversions based on 50 million try-ons across 50+ countries

Anushree Ghosh
General Manager & Head of Digital Marketing
ITC Limited, Foods Division

To D2C or not to D2C ?

'To D2C or not to D2C', is possibly a question that has lost its rhetorical status, especially in the last few years of prolific Digital and eComm growth. The strategic outcomes in favor of a 'brand.com/ direct to consumer' (D2C), far outweigh the converse.

The larger conundrum, however, has been that of designating D2C as a pure-play sales channel Vs that of a key strategic pillar for digital & data maturity, one that continues to hijack boardroom conversations, especially in CPG organizations.

There are several cons to a D2C set-up, especially in the case of mid to low gross margin CPG businesses (especially sub 40% GM), making it tough to find a profitability unit-economics perspective.

Myriad cost drivers weigh down the profitability heavily, which is largely consistent with the overall eCommerce business model challenge in India. The prominent cost drivers are –

1. Highly inflated consumer acquisition costs.
2. Waning consumer lifetime values.
3. The cost of platform upkeep and the larger suite of technology.
4. The unit economics of running dark stores/warehouses and other supply chain costs.
5. The last-mile delivery management costs, especially the weight of delivery packages(if higher than the threshold) drill a substantial hole in the P&L.
6. Along with the above, eCommerce has re-framed the conversation on the speed of delivery, and D2C's don't seem to stand a chance there.

However, there is the complementary lens, that can potentially place the role of a D2C in the front and centre of an organization's strategy, once converged with the larger marketing, digital & data strategies, and in a slightly longer term, the cost-value equation begins to make sense.

Areas where the role of D2C squarely fits in, and meaningfully adds tangible value are –

A. Data-backed consumer experiences:

- Content or experience D2C as the logical destination for paid media interventions, especially for the mid-funnel campaign objectives. Takes away the need for using expensive 3P landing destinations.
- As the destination for personalized brand experiences that lead with commerce, ranging from topical, seasonal, and festive experiences. These experiences complement the thematic brand interventions and are a great opportunity to recruit and retain new brand (NTB) consumers.
- As a logical commerce destination for branded and non-branded content 'demand spaces', ones that aim to channel larger category intent (searches) into a brand's own digital ecosystem.
- The D2C can act as the petri dish of several consumer journey-based experiments in the ever-evolving areas like - UI, UX, SEO, CRO, deeper media, and content, helping an organization to become digital/data first.
- Last but not least, an owned commerce destination makes for a great opportunity to collect and enrich good quality first-party data (FPD), which is invaluable in the post-cookie era.

  Enriched first-party data (FPD) exhibits 3X more match rates with large publisher platform data (> 60%) and also enables to delivery of 2X more efficiencies in media campaigns.

  Hence a D2C is almost central to the audience retention and growth strategies for an organization. This also helps in creating consumer intent-based 'smart cohorts'.

B. A complementary companion to third-party eComm and OmniChannel platforms

- **KVI (Key value items) war** – KVIs are typically the bestselling and hence most discovered SKUs on eCommerce platforms. They drive the larger volume and value of the third-party eComm business for most organizations, however overshadow the longer tail of the range, sales, and hence availability which forms a vicious cycle.

  Owned D2C platforms can potentially become the hub for the larger depth and width of a product portfolio. A focused strategy can potentially drive trial and demand generation for the otherwise undiscovered/expensive to discover range on third-party eComm, thereby driving a cost-effective and complementary strategy of creating consumer pull. This strategy can help new/niche brands save on high platform margins, especially when the scale is small.

- **Invaluable insights from commerce journeys** - D2C consumer journeys can provide deeper insights into market-basket and assortment, real/virtual product combos, promos, sampling ideas, etc., which can inform the category management and media strategies for third-party eCommerce/OmniChannel platforms and hence solve for more profitable TOTs (Terms of Trade).

In summary, a well-strategized D2C integrated into the overall marketing mix and the digital and data thinking can potentially create several opportunities for brands to witness meaningful ROI from the same.

The CX pyramid

The CX pyramid[12] provides a structured approach for D2C businesses to assess & improve their customer experience.

The 6 steps mentioned in the CX pyramid describe the maturity levels of various CX interventions starting with the bare minimum/ hygiene experience at the bottom to the most mature element on the top.

Customer experience (CX) pyramid

Chart 5.1: CX pyramid

Successful D2C businesses, try to develop CX strategies across all the 6 levels of maturity. However, unless the foundational CX elements are in place, the higher-level interventions do not deliver the desired results.

Given below is an example of how successful businesses (Amazon, and Uber) design their CX approach across all levels of the CX pyramid.

The customer experience (CX) pyramid

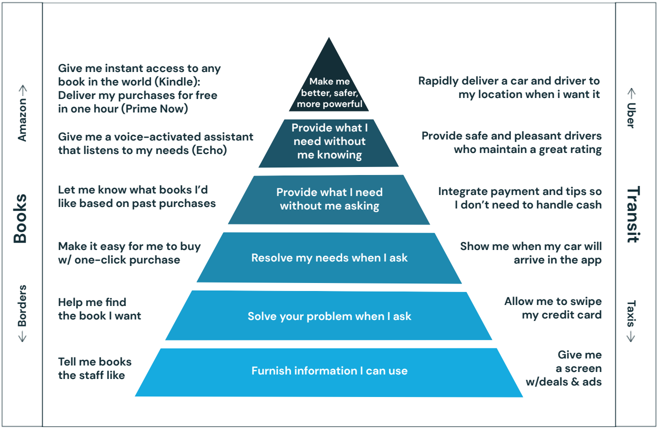


Chart 5.2: Example of CX pyramid use cases

In the current retail landscape, consumers expect personalization at every phase of their shopping journey. Over time, these expectations have evolved into more intricate demands, encompassing various factors such as gender and skin type.

To give an example, 'For me' queries have grown 3X over the last few years. A few pre-purchase trends are as follows:

- Searches related to a consumer need/issue (e.g. Face wash for dry skin, face wash for daily use etc).
- Gathering information about the kind of product available (e.g. Moisturizer for face charcoal peel-off mask).
- Comparisons (e.g. Best face wash, best face wash for dry skin, etc).
- Comparing prices (e.g. Nivea body lotion 400 ml, Biotique face wash below Rs 1000.)

5.4 Impactful creatives

Quality creative assets go a long way, not just in building mental availability but also in conversion.

Successful D2C businesses develop consistent creatives across languages, cultural nuances, demographics, seasonality etc. They consistently run A/B tests to zero in on the best creative that engages customers and leads to improved conversion.

L'Oréal provides expert hair care solutions for multiple hair types across India. They designed a pan-India campaign on the effect of weather on hair types, for example 'too much' humidity, leading to 'Frizzy hair', Too sunny leading to 'fading hair colour' and too cold, leading to 'Dandruff and dry hair'.

They leveraged 30+ such dynamic variables, 20+ audience cohorts, and 8+ products to build 100k+ creatives addressing all permutations. They leveraged Dynamic Creative Optimization (DCO) to deliver the most apt advertising to consumers based on their location, demography, region, etc.

The campaign led to a ~17% increase in online sales, a 6% uplift in consideration for the target group.

While technology has progressed to enable Dynamic Creative Optimization (DCO) at scale, the foundation of DCO is built on consistently high-quality creatives aligned with overall brand positioning. Successful D2C businesses focus on consistency and quality of creatives while maximizing value from newer techniques such as DCO.

Example: L'ORÉAL

5.5 First party-data

Focus on first-party consumer data has become increasingly important for D2C businesses due to:

Change in digital literacy in India, a sizable number of consumers (~80%+) research products online before making a purchase. As a result, brands recognize the need for data-driven early engagement with consumers.

Deprecation of third-party cookies is scheduled to begin in 2024 – limiting the ability of marketers to target consumers using traditional browser-based techniques.

Digital Personal Data Protection (DPDP) Act, 2023: With the launch of the DPDP Act there is an increased scrutiny and clear guidelines on how to handle personal and sensitive data. The act puts, restrictions on ad-hoc sharing of data with various DMPs to activate ad campaigns.

Considering all the above aspects, brands have started to invest in composable customer data platforms (CDP) to collect and enrich first-party consumer data. Such investments in CDP require time and careful planning, however in the long run the investment pays off to improved targeting and conversion.

To enhance data post-acquisition, advertisers can leverage campaign data to refresh First-Party Data (FPD) with newer audience attributes. Data platform managers establish a loop between the data lake and the campaign using tags for signal exchange. Additionally, using customer data attributes like recency, frequency, and monetary value contributes to FPD, especially in categories with higher repeat purchases or aiming to maximize Lifetime Value (LTV).

Data Clean Rooms (DCRs) facilitate data collaboration and enrichment. In this tech platform, two parties share FPD, enriching only matched users sent back to the enterprise buying enrichment, ensuring privacy. The value of a partner is determined by the quality of data and the number of complementary attributes. Factors like audience size and the frequency of data set updates are crucial considerations.

To enhance targeting, a brand can leverage different platforms such as Demand Side Platforms (DSPs), Data Management Platforms (DMPs), and/or Audience Managers (AMs) etc. Before forming a partnership with a new data source, it is crucial to:

- **Validate the quality of data.**
- **Identify complementary attributes that partner can contribute.**
- **Evaluate the scale and depth of data.**
- **Comprehend the data collection approach.**
- **Determine the refresh rate and last update.**

As part of our research, we looked at how successful D2C companies are using their first-party data. A few specific themes emerged (ordered by weighted average score indicating priority attached by respondents).

1. Targeting/ cross-selling other products	3. Running look-alike campaigns	5. Consumer profiling and research
2. Improved consumer experience (personalized customer journeys)	4. Product innovation	6. Provide value-added services

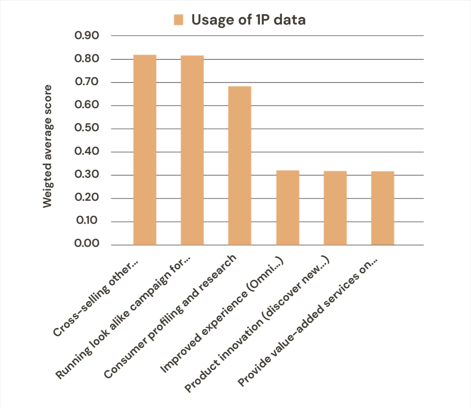


Chart 5.3: D2C path to profitability

"Over the last few years, we have started leveraging our own first-party data (in driving acquisition) and we have seen media efficiency coming out of it."

Video Link

Sujay Ray, L'Oréal

As described in the previous section, when done right, first-party data has the potential to deliver ~4%+ lift in the overall D2C revenue. Therefore, D2C brands must have a structured roadmap to collect, manage, and use first-party data in scaling their D2C business.

Conclusion

In this report, we looked at various trends driving the turbo growth of eCommerce in India. We further delved deeper into the strategic positioning, challenges, and business case for running a D2C business in India. We also covered five insights that can help D2C businesses grow.

Scaling up D2C businesses in India faces obstacles like elevated consumer acquisition costs, operational intricacies, and unclear ROI. Most standalone D2C businesses in India encounter difficulty in achieving profitability. Our research pinpointed prosperous D2C businesses that surmounted these hurdles, attaining profitability through the generation of consumer insights, product innovation driven by D2C data, and fostering favourable brand mindshare. These businesses have consistently secured profits by capitalizing on incremental value derived from these avenues.

The path to profitability for a standalone D2C business poses significant challenges. However, the genuine value of D2C investment emerges when we integrate insights from D2C with the broader eCommerce business. In our conservative assessment, well-executed D2C businesses have the potential to consistently yield an operating margin surpassing 8%. We think that successful D2C businesses share common characteristics such as a distinct business proposition, alignment with crucial metrics, prioritization of a seamless consumer experience, development of impactful creatives, and a forward-looking investment in 1P data.

As we conclude, we believe that Direct-to-Consumer (D2C) businesses are here for the long haul. With an increasing number of traditional retailers integrating D2C channels into their OmniChannel strategies, the resulting hyper-competitive landscape may challenge revenue growth and margins. Nevertheless, by implementing actions derived from the insights detailed in this report, businesses can not only mitigate risks but also propel themselves into a phase of hypergrowth.

Acknowledgements

We extend our heartfelt gratitude to all those who have provided their valuable insights and expertise towards the development of this industry report.

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We would like to express our gratitude to our sponsors Shopify, HT Media, and The Hindu. Their valuable input in the report development and the launch process has enriched the content and helped us to reach a wider audience.

We are thankful to the MMA India Board members and the eCommerce council for their contribution & support and a special mention to key industry experts for sharing their valuable perspectives for this report.

Lastly, we would like to thank all the practitioners who contributed to the primary survey on this topic.

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