

A Study of Direct-to-Customer as a Strategy in Organized Retailing in India

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Abstract

Direct-to-Customer(DTC) marketing refers to promoting a good or service straight from the seller to the consumer, without intermediary advertising such as television commercials, radio ads, or public displays. This form of marketing can be particularly effective for small- and medium-size businesses with little brand recognition and moderate advertising budgets.

The roots of direct marketing date back to trade catalogues, among the first tools of direct marketing. One of the first catalogues ever produced was a list of books for sale, sent to potential customers in Venice in the 15th century. In the United States during the 19th and 20th centuries Yankee peddlers and door-to-door salesmen contributed to the growth of the industry. In recent decades advances in technology and the development of the Internet have enhanced direct marketing capabilities in ways previously unimaginable. This study aims to analyze DTC as a strategy in organized retail.

1. Introduction

Claire Hopwood (2016)¹ in his article said that DTC allows companies to control their brand's story and relay their messaging directly to consumers.

“If a consumer chooses your product over a competitor's on a retailer's website, you might have won a sale—but you've lost the opportunity to build a relationship,” says Alex Becker, global VP of branded manufacturers at commerce-as-a-service solution provider Digital River, about the role of DTC selling in building a brand. “A distinctive, compelling and focused public-facing brand experience, complete with direct-to-consumer online sales, lets manufacturers control and cultivate relationships with customers that transcend retail channels.”

Of course, building a brand through the DTC strategy also presents some complications. In particular, a robust DTC presence could endanger another important marketing channel: selling through retail partners. Nike's aggressive push for direct sales, for instance, puts its relationship with retailers in an awkward position.

Selling directly to customers, however, doesn't necessarily translate to better customer experience. If companies don't have the necessary insight, processes and culture in place, they won't be able to provide a seamless customer experience. An understanding of the end consumer is required to ensure that any direct sales effort improves the customer experience.

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Since retailers have aggressively pursued DTC, some sportswear chains have folded, including Boston's City Sports. To avoid upsetting their retail partners as they expand their DTC channel, companies need a more holistic understanding of their consumers and to use that insight to find the right balance. For instance, companies need to figure out which consumer segments prefer to buy directly from retailers—and *why*.

Companies could also use their DTC channels to bring insight to their partners. For instance, this channel could be a way to test new products and campaigns in a smaller, safe environment before they are scaled out to retail partners. Customer intelligence can help companies make better decisions about their DTC efforts and provide the necessary insight to help their retail partners sell more.

For many brands, the most compelling reason to sell directly to consumers is the potential to collect massive amounts of customer data.

"DTC channels are an opportunity to build up the lifetime value of consumers because brands can garner information about their customers and tailor personalized shopping experiences to them," says Reuben S. Hendell, CEO of e-commerce technology provider BrandShop. "It's important for brands to be able to deliver personalized experiences, not only to drive more sales but also because 75 percent of consumers prefer it."

2. Objectives and Research Methodology

Objectives of the study are as given below:

1. To study the organized retail scenario in India.
2. To analyze Direct-to-Customer as strategy in organized Retail Outlets in India.

Research Methodology

Research methods can be classified in different ways, the most common distinction is between the quantitative and the qualitative approaches (Myers, 2007²). Quantitative approaches were originally used while studying natural sciences like: laboratory experiments, survey methods and numerical methods. A qualitative study is used when the researcher wants to get a deeper understanding on a specific topic or situation. Myers (2007)³ stated that the qualitative approach was developed in social sciences in order to support the researcher in studies including cultural and social phenomena. Sources included in the qualitative approach are interviews, questionnaires, observations, documents and the researcher's impression and reactions. The chosen approach is qualitative.

This study typically takes the form study of secondary data available on Indian Retail system. To understand and analyze Direct-to-Customer as strategy in organized Retail Outlets in India, we have gone through a number of reports and papers. This has the advantages of providing very rich information and avoiding the influence of others on the opinion of any one individual.

3. Scenario of Organized Retail in India

Retailing in India is the largest private sector and second to agriculture in employment. India has highest retail outlet density –Around 1.5 retail crore retail outlet. The retail sector contributes about 10-11% to Indian GDP and it is valued at an estimated Rs.93000 crore out of which organized retailing industry around Rs.35000 crore.

Organized retailing is primarily urban centric, its share as represented in urban scenario is projected to be 12 to 20% Growing at more than 30%, the organized sector is deriving the retail growth in India and contributes significantly to the growth of economy. According to the study done by the "Associate Chambers of Commerce and Industry" it is expected that annual retail sales will reach \$17billion by the year 2010, the retail sector in India has the potential to reach \$270-280 billion dollar.

²Myers, M. D. (2007), "Qualitative Research in Information Systems", MIS Quarterly, vol. 21 No. 2, pp.241-242.

³ Ibid

For this the government will have to bring about the required liberalization in the retail sector if India is to ever become a developed economy. Recently organized multi outlet retail concept has gained acceptance and since then accelerated.

All major players such as Wal-Mart, Tesco, Sainbury and others are keen to enter the retail market. "A.K.Kearney" ranked India 5th out of 30 most attractive retail markets in terms of investment. Recently government has taken certain action to liberalize the retail market in India.

In the early 1980s manufacturer's retail chains such as Binny, S Kumar's, Vimal, Bombay Dying, HMT, Allwyn, etc started making their appearance in bigger cities. Later in 1990s Branded retail outlets like Food world, Nilgris and local departmental retail outlets like Trinetra super market, Apna Bazaar, came into existence. Currently many big players like Big Bazaar, Vishal Megamart, Reliance etc. reputed companies have already established their name in organized retail businesses and many multinational companies such as Bharti Wal-Mart, Nike have recently entered.

Organised Retailing is India's one of the fastest growing industry and one of the biggest sources of employment in the country, generating more than 10 per cent of GDP of India. Organised retailing, however, currently organized retail is contributing merely about three percent of the overall Indian retailing industry. Organised retailing, aims at providing an ideal shopping experience to the consumer based on the advantages of large-scale purchases, consumer preference analysis, excellent ambience and choice of merchandise.

India's strong economic growth and rise in disposable incomes, especially with salaried class after the implementation of Sixth pay scales, of middle class and lower middle class has attracted business houses like **Omaxe, Parshvnath, Vatika, and Ansals** to invest into retail business. The Government's decision will allow foreign Direct Investment and businesses into this sector attracting foreign companies to establish their businesses in India. Now foreign retailers will be able to own their own stores in India for the first time as part of a major government liberalization of business. Till 2006 foreign companies were allowed to operate franchises by the government to protect the indigenous companies. Now new regulations may allow foreign companies to hold up to 100%. But the Indian government is going ahead with new reforms which may

create millions of job in the near future while safeguarding the interest of domestic firms.

The increase in the land value and number of real estate companies investing in this field has also helped power the boom as financing is made easier, one can see that software companies like Satyam has marked their presence in reality and infrastructure and the reality company, K.Raheja group has stretched its wings to retail. The noted swift growth in reality industry is of significance and this is changing the evolution and the spectrum of whole marketing of FMCG, farm and diary products.

Government of India has permitted up to 51% foreign direct investment in single-brand retailing in the country. This rule, to some extent saved the existence of unorganized retailers but in the long run there is a possibility that Indian Government may allow 100% FDI there by permitting to setup multinational retail operators which may wipe out the existence of unorganized sector.

4.Direct-to-Customer (DTC) Model as Strategy

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With the rise of mobile, social and cloud technologies, customer expectations continue to increase. More than ever, customers demand a more seamless experience. For many businesses, customer experience is the new battlefield—a competitive advantage that attracts and keeps customers.

When wholesale manufacturers sell through retail distributors, they have very little say on how the product is sold. They're at the mercy of the distributor to ensure that the customer leaves the store (or the website) happy and satisfied. By selling directly to consumers, companies can envision how the customer journey should take place and execute the tactics required to make that vision a reality.

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"[Companies like Nike] tells with a straight face that online sales really doesn't do that much volume and it is to increase awareness of the brand, that we shouldn't be afraid," Ray Pugsley, co-owner of the Potomac River Running

⁴ Claire Hopwood (2016), "Why direct-to-consumer is becoming an important retail channel", <https://www.visioncritical.com/direct-to-consumer-marketing-channel>.

chain in the Washington, D.C., area tells the *Wall Street Journal* about retailers' efforts to pursue DTC. "Time will tell whether that is a good story to put us at ease, or whether it could be the truth."

Since retailers have aggressively pursued DTC, some sportswear chains have folded, including Boston's City Sports. To avoid upsetting their retail partners as they expand their DTC channel, companies need a more holistic understanding of their consumers and to use that insight to find the right balance. For instance, companies need to figure out which consumer segments prefer to buy directly from retailers—and *why*.

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While selling directly to consumers makes it easier to acquire customer behavior data, companies need to make sense of all that data. Unfortunately, data alone doesn't provide a complete picture of the customer behavior. To be able to improve the end-to-end customer journey, companies need to integrate the transactional data they get from all their channels.

More importantly, direct and authentic engagement with customers is required so companies can understand the *why* behind customer behavior. Whether companies invest in DTC or not, they still need to engage with consumers on an ongoing basis to gain the necessary customer intelligence for their business.

5. Conclusion

In Indian retail sector there is a paradigm shift from unorganized to organized sector and Indian retail sector has suddenly become active. Some major retail players are trying to move in retail market. Reliance Industries has launched its retail operations branded "Reliance retail" in the country by opening outlets in Hyderabad that sells fruits vegetables and grocery.

Retailers recognize the DTC as strategy for greater understanding of customers to enhance customer satisfaction and retail performance. This study seeks to enrich DTC understanding by providing an overview of existing consumer behavior and suggesting that specific elements of consumer behavior—goals, schema, information processing, memory, involvement, attitudes, affective processing, atmospherics, and consumer attributions and choices—play important roles during various stages of the consumer decision process.

Kurt Solmon (2013)⁵ in his paper titled "Going Direct the Journey from Wholesale Brand to Direct-to-Consumer Retailer" mentioned that According to an Economist Intelligence Unit survey, the percentage of manufacturers selling directly to consumers (DTC) is expected to grow 71% over the next years to more than 40% of all manufacturers. And the number of historically wholesale brands on the Internet Retailer 500 is growing too, from 51 in 2008 to 63 in 2012.

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