Forbes

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Apr 15, 2021,03:10pm EDT

Direct To Consumer (DTC) Comes Of Age For F & B

Louis Biscotti
Contributor
Food & Drink
National Leader, Food & Beverage Services Group, Marcum

The pandemic, which began more than a year ago, has turned shopping trends from a slow shift into a dramatic transformation. While DTC was gaining steam before the pandemic, it got supercharged in 2020. And even as vaccinations arrive, DTC will likely be a lasting legacy of the pandemic as well as a growing presence in all categories, including F & B. To understand the future of F & B, it's important to see how DTC is changing the industry, providing opportunity for some and challenges for others.

Brands are seeking to find their place in the e-commerce eco system – and DTC is part of that. When consumers sought to shop at home, brands began selling more direct as part of their e-commerce expansion. Big manufacturers began thinking "in the box" as 2020 turned into a kind of dawn for an age of delivery; a virtual revolution, not evolution; and a win-win for CPGs and consumers.

Online grocery purchases have been clicking with consumers, setting the stage for DTC. Seventy-three percent of consumers bought groceries online over the past three months, up from 17 percent in 2017, according to PowerReviews. Meanwhile, 61 percent bought more groceries online than pre-Covid. Americans love to shop, and increasingly, they love to shop online. And not only with retailers, but manufacturers.

DTC hasn't replaced traditional retail, but big brands made big DTC moves as they pivoted in the pandemic. PepsiCo launched PantryShop.com and Snacks.Com, while Kraft Heinz seemed to discover the charms of DTC and Nestlé expanded its efforts, seeing KitKats fly off its site, not just shelves. While retailers typically own part of the customer relationship, brands have disrupted the ordinary order of things. They could soon be the new relationship owners, collecting valuable customer data such as demographics as they go. As they get to know their customers better, they will be able to better serve them and capitalize on their brand recognition.

DTC brings challenges (such as delays, which can damage brands) as well as benefits to CPGs and consumers. Selling through traditional retailers adds costs such as slotting fees for the right to put products on shelves. Brands can eliminate these expenses by modifying their warehouses and building their own logistics systems. Think about the costs associated with BOGOs (buy one get one free), coupons, loyalty programs and rebates for CPG companies in the battle of the brands. And products have to compete on supermarket shelves, but no competitors exist on brand sites – beyond a CPG's other offerings.

Convenience, not just cost, is king. Think of DTC as a different kind of "fast" food. Six-feet-apart shopping led to the ultimate distancing: delivery, as people go not to the store, but the website. DTC added a new dimension to F & B brands as it became more accepted. Attitudes shifted, making DTC a bigger player. About one third of Americans surveyed in January for a DTC study by Scalefast saw "no difference" between buying from a traditional retailer and DTC. CPG companies can make up for additional shipping costs with great logistics systems, fewer coupons and slotting fees, increasing margins while consumers pay less. It's a win-win – at least for the CPG and the consumer.

Who loses? Distributors could have to shift more to the food service sector (restaurants, etc.) and retailers could lose revenue. But brick-and-mortar retail is growing its ability to serve customers through e-commerce. Stores are not standing still. During the pandemic, retailers grew online sales through curbside and delivery. They also pumped out private label. After launching Bowl & Basket (foods) and Paperbird (household products), ShopRite, for example, has been making a push to expand in private label.

Even as brands transform with tech, retailers such as Kroger KR -0.4% are taking bold steps to affiliate with and acquire technology. Kroger teamed with tech company Ocado to build robotic fulfilment centers, selling better via e-commerce. Further embracing technology, Kroger is using artificial intelligence to suggest recipes. Other retailers are also investing in technology to up online sales, setting up spaces for pick-ups and picking out products for shopping lists. They're also boosting customer loyalty programs, from Amazon's AMZN +1.1% Prime program for grocery stores to Walmart's WMT +0.5% new premium loyalty program, Walmart +, to reward customers.

But there are still hurdles as retailers build brands, brands build retail, and borders blur. Will the business model of the classic retailer or food and beverage distributor survive? Traditional retail must adapt. Old and new brands still often rely on brick-and-mortar in their growth strategies. But brands need to be where consumers are, whether that's online or in the store.

So where does DTC fit into the F & B picture's future? It can provide opportunities, as well as risks. My prediction is those who adapt and change will prevail. Maybe that's one reason Amazon bought Whole Foods WFM 0.0%. Tech companies want to revolutionize retail amid an online buying revolution. After decades where thinking out of the box meant creativity, thinking in the box may be a big part of what's in (and out of) store for the future.