The New "Commandments" of Retail:

Direct to Consumer Strategies and Concept Stores Create Brand Disciples

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"In the beginning, there were bricks," sayeth the Holy Book of Retail in its first chapter. "Verily, the bricks were followed by clicks. Clicks begat Omni, and Omni gave life to Direct-to-Consumer and Concept Stores."

And brand managers saw that they were good.

The evolution of retail has been rapid over the past 25 years. Physical **brick-and-mortar** locations, which had been the locus of consumer experience for decades, were first challenged by – then supplemented by – online **clicks** through e-commerce channels. In recent years, **omni-channel** retailing rose to dominion, representing the integration and careful orchestration of multiple channels so that a customer's experience of engaging with a brand was seamless and reinforcing no matter their entry point.

Today, pioneering retail brands are entering a new covenant with customers through **Direct-to-Consumer (D2C) and Concept Stores**. The tenets of this new brand strategy include a holistic, 360-degree integration of physical and virtual shopping venues, customer engagement methods, hyperlocalization, value-adding deployment of big data, and new measures of success.

In this article, we will examine the value of D2C initiatives, the key ingredients necessary for success with D2C strategies, examples of leading brands operating concept stores, and possible implications for Lottery.

Why D2C and Concept Stores? Are They Worth the Investment?

The prophets of this retail approach include Nike, Amazon, Hilton, Williams-Sonoma, and other esteemed brands which are showing the way toward new levels of customer engagement. These brands have reported gains in nearly every measure of customer engagement, including brand awareness, acquisition, satisfaction, mindshare, and profitability.

There are three overarching reasons propelling brands to undertake the D2C and concept store strategies:

1. **Customer expectations** continue to spiral upward. Mobile, cloud, and social technologies have converged to create a customer expectation of shopping anytime, anywhere.
2. **Controlling the brand message.** When wholesale manufacturers sell through retail distributors, they have little influence on how their products are sold. By selling directly to consumers, companies can control how the customer journey should unfold and execute the tactics required to make their brand vision a reality.
3. **Acquisition and application of customer data.** A D2C strategy makes it easier to acquire customer behavior data (it can be problematic to acquire such data from wholesalers). To improve the end-to-end customer journey, brands integrate the data they receive from all their channels for a portrait of who wants what when and where (customer, need, product or service, time, channel).

Leading brands are making big bets in concept stores. Here are a few to watch:

Nike Live

In July, Nike opened a D2C concept store, a 4,500 square-foot place on fashionable Melrose Avenue in Los Angeles. The store has a "museum" appearance and its merchandise mix is entirely driven by customer data derived from zip codes in the immediate area. The concept pivots on convenience, personalization, and customer choice. Regarding personalization and choice, Nike has learned that customers will pay $170 for the option to customize their own gear. Nike intends to expand the D2C part of its business aggressively, by 250% in five years to more than $15 billion.

Amazon Go

Amazon Go opened in Seattle, featuring cash-less and "no check out" convenience. No one would dispute that Amazon has been the dominant force in e-tailing for decades, but it does not yet have enough experience in "bricks" to be considered a formidable concept store player.

Hilton

Hilton is improving customer satisfaction by communicating directly through a mobile app. One quarter of Hilton's most loyal guests regularly use its Hilton Honors app to open doors, select rooms, check-in, and order services using their smart phones. The room selection and reservation process is underpinned by high-quality images of thousands of rooms.

Williams-Sonoma

Williams-Sonoma Inc. and its family of nameplates, including Pottery Barn, West Elm and Williams Sonoma Home, may be the embodiment of retail evolution. The company began as a single store selling kitchen gadgets and cookware. It built an outstanding merchandising vision, became obsessive about operational excellence, and embraced the D2C model, initially with print catalogs and then as an early adopter in the formative stages of e-commerce to create a near perfect balance of physical and online sales.

Other Leading D2C Brands

Bonobos started in 2007 with a pair of men's pants that fit well, but it has since innovated in the categories of commuter work pants, underwear sold by waist size, shirts, activewear, and more. Its "bricks" channel, Guideshops, features heightened retail experiences that include special event appointments and complimentary style assistance.

Wayfair may be the next challenger on the D2C landscape. Wayfair has been a pioneer in bringing Augmented Reality (AR) capabilities to the shopping experience (which is an increasingly critical dynamic among customer expectations), but it has a ways to go in perfecting its integrated marketing engagement.

The Key Ingredients

Nearly any brand can benefit by delivering personalized Direct-to-Customer experiences, but embracing the strategy is not without its risks and challenges. Migrating to a direct model requires business transformation, unwavering commitment from executive leadership, and a plan to coordinate the multiplicity of business units, customer touch points, and business processes needed to execute a D2C strategy.

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and the ability to track consumers' lottery purchases have prevented lotteries from better understanding their customers and building a dialogue with them. The advance of digital communications is removing this inherent disadvantage. With the advent of mobile apps and other technologies, lottery providers can now avail themselves of many of the tools that casino operators rely on to communicate with their customers.

Several state lotteries have already introduced mobile apps that enhance the information they provide through their websites. The more advanced apps, such those found in California, allow customers to scan barcodes to determine winning tickets and also capture database information by offering "second chance" games, exclusive to those players that reside in the state, download the app, and provide a name and address. In other words, these apps allow for the creation of a database, the first step in building a CRM program. Even without player names and addresses, mobile apps allow the lottery operator to send push notifications, jackpot alerts and information regarding new games. It also allows customers to maintain a certain degree of anonymity, should they choose to do so. This differs starkly from casinos that insist on inspecting a new member's identification during the sign-up process.

A mobile app is only the first step. The missing piece of the puzzle is capturing customer spending patterns. Up until now, this would have been cumbersome, slowing down the ticket sales process, which traditionally occurs in high-volume sales environments. With a mobile app, capturing a player's purchasing information is as easy as a player swiping their phone at the point-of-purchase. With that kind of data, lotteries can learn about individual spending patterns and build programs that enhances player experiences. CRM also allow lotteries to take responsible gaming initiatives to a level beyond simple informational signs and brochures.

As lotteries take steps to open up a dialogue with their customers and build their CRM programs, the industry should continue to look at what other industries are doing to engage customers and learn from them. There is much to learn from casino operators even though their business models differ from lotteries.

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It is difficult for companies to coordinate customer engagement across an increasingly non-linear customer journey using a burgeoning admixture of mobile, social, and digital touchpoints. It takes executive willpower to implement D2C systems that knit together marketing, sales, product, agency, and communications silos in service of an "anytime, anywhere" customer experience in direct channels.

Hyperlocalization is an increasingly important consideration in D2C concept stores. Through a deep analysis of customer demographics and shopping behavior in the immediate physical geographies surrounding brand-name stores, D2C operators optimize their merchandise mix and local pricing strategies.

Big data represents the heartbeat of any D2C strategy. Identifying the optimal formula for delivering choice, personalized experiences, and relevant content is essential for success. Knowing how to extract key insights from terabytes of data distinguishes the good players from the great in the D2C arena.

Other D2C imperatives include managing channel conflicts and supporting direct sales with high quality content. Few executives think of a D2C approach as being disruptive of their own industry or their own business, but new profit models that reflect the contributions of various channels can accelerate movement along the D2C path.

Content plays a different role in D2C channels than it does in awareness-building and branding programs. Video content, personalized elements, education, stories, and thought leadership are essential in the digital experience.

D2C calls for new thinking in how to measure performance. The direct model defines success in terms of measurable client outcomes – satisfaction, activation, conversion, subscriptions and profitability. To enable D2C business models, brands will need to embrace a "performance marketing" mentality and define success as more than impressions, brand awareness, and engagement.

Logistics - 3PLs

A mastery of logistics – distribution, transportation, and on-time delivery – is a hallmark of excellent D2C brands. However, retailers that are relatively new to e-commerce initially struggle with the speed of delivery (order fulfillment) expected by digital-native customers. Companies that do not have the resources to build distribution/fulfillment infrastructure like Amazon, Wal-Mart, and Target rely on third-party logistics operators (3PLs), including UPS, FedEx, the U.S. Postal Service, and others. This large-scale outsourcing requires specific management systems and – if something goes wrong – can harm the brand even though the fault lies with the 3PL.

Conversely, e-tailers that are opening physical stores are realizing a significant operational advantage in processing product returns. Online retailers have a return rate of about 30% compared with 10% for physical store retailers. And return shipping costs are expensive. Beyond the avoidance of expense, however, is the opportunity to sell additional products and services to those customers who come into a store to make a return.

Implications of D2C for Lottery

Many of the D2C approaches may not resonate in the Lottery business, but here are a few considerations that may stimulate new thinking:

Partner with a D2C Player

Lottery could partner with a respected D2C brand whose "good works" mission could represent an extension of Lottery's own mission. To wit, Warby Parker, the successful D2C company who donates eyeglasses to needy people with its "Buy One, Give One" strategy. During a designated promotional period, Lottery agencies could donate $x for every ticket sold that is co-branded with Warby Parker.

Max Out Video

Lottery agencies should dedicate increasing amounts of resources to developing video content. Every agency should create its own YouTube channel that shows videos of Lottery good works, game winners, TV ads, and promotional partners. Little movies that tell charming and compelling stories are powerful ways to advance a brand's image and reinforce its promise.

Player Data

In those jurisdictions that permit online Lottery games, agencies should construct individual player profiles based on robust data analytics so that the person, the place, and the purchase behavior can roll into personalizable experiences.

Conclusion

There are many lessons yet to be learned in the D2C era of retailing. There are many questions still to be answered. It will require faith to embrace the new tenets, but the payoff could be heavenly for brands and their customers.