Going direct

Is direct to consumer selling set to revolutionise the manufacturing sector?

BARCLAYS

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About this research

The research has been commissioned by Barclays Corporate Banking with work carried out by Development Economics during September and October 2019.

The report has been undertaken in parallel with a bespoke survey of UK manufacturers with fieldwork carried by Opinium during September 2019.

This survey provided responses from senior executives at 500 UK manufacturers, with the sample providing at least 50 responses per UK region and manufacturing sub-sector.

Due to rounding, some totals may not correspond with the sum of the separate figures.

Opening up new revenue streams

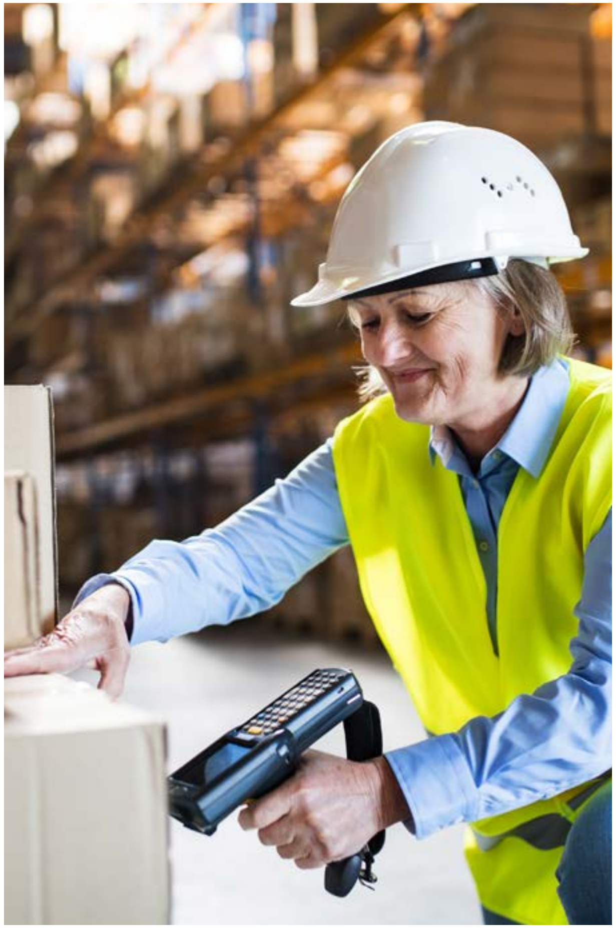
Research from Barclays Corporate Banking focused on the opportunities for manufacturers to use a direct to consumer sales approach. The results showed the potential to increase turnover, open up a broader customer base and speed up the time it takes to get goods to market.

- The UK manufacturing sector could add £13.3bn of direct to consumer (DTC) revenue in 2025 through greater investment and more effective business strategies to support the DTC approach, a 15% growth over the coming five years. Using this sales strategy could also create 31,400 new jobs.
- Even if DTC growth continues on its current trajectory, sales through this approach could grow by 12% by 2025.
- Three quarters (73%) of UK manufacturers are now selling some or all of the products they manufacture direct to end-user consumers – compared to 56% five years ago.

55%

of businesses using a DTC approach have increased their sales by using the channel

- Selling directly provides opportunities to own the end-to-end brand experience and build closer relationships with customers, as well as offering greater control of products. When asked about the benefits that their company has experienced through DTC use, manufacturers identified revenue growth (45%), access to a broader customer base (38%) and improved speed to market (32%).
- More than three quarters (77%) of all manufacturers plan to invest in DTC during the next year and 74% have increased capital expenditure over the last 12 months.
- The most common challenges identified by those using DTC include: building brand loyalty (41%), increased responsibility for every touchpoint within the supply chain (32%), managing customer interactions and differentiating the product offering (both 31%).
- To get ready to sell directly to consumers, businesses have already made – or say they will have to make – changes to their workforces. Over one third (36%) envisage training or upskilling. Another third (34%) expect to employ people with a different skill set and 32% anticipate hiring more people.



Is going direct the way forward?

Direct to consumer sales have increased significantly in the past few years, and it's an approach that many manufacturers should consider, says Lee Collinson, National Head of Manufacturing, Transport and Logistics, Barclays Corporate Banking.

New sales and distribution channels are creating disruption within the UK's manufacturing sector. One of these is direct to consumer (DTC), which completely bypasses the traditional method of manufacturers selling via wholesalers, retailers and/or other third parties, and builds a new relationship between the manufacturer and the end consumer.

Importantly, it provides an opportunity to build sales through a new revenue stream to help support growth ambitions in today's market, when many businesses are struggling to hit even conservatively-set annual targets.

Global trend

It's a trend that's already seeing significant growth globally. In 2008, for example, DTC accounted for just 3% of overall fashion/clothing/footwear sales in the United States. By 2018 this had more than doubled, with predictions suggesting it could grow by 40% by 2028.[1]

> "At a time when business conditions are challenging, exploring the opportunities DTC offers could be game changing."

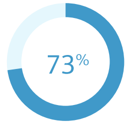
Research by Cranfield University shows that UK manufacturers are also keen to explore the possibilities of DTC. Almost half (48%) of manufacturers are already building channels to support the strategy, and almost all (87%) see DTC as relevant to their products and consumers.[2]

This supports our own research which shows nearly 73% of manufacturing respondents now sell directly to consumers, increasing sales for 55% of these businesses. Additionally, 72% of manufacturers, whether currently using DTC or not, admit that the strategy is good news for consumers and the manufacturers themselves, while 51% agree that DTC businesses have improved the market.

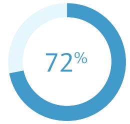
Technology as a facilitator

As is often the case, technology is acting as both a facilitator and a leveller of the trend – giving smaller businesses the same opportunities as their larger competitors. On the one hand, DTC is permitting smaller manufacturers, new businesses and entrepreneurs to sell directly to the target audience and bypass the restrictions often imposed by retailers and wholesalers. However, the strategy also presents opportunities for existing medium and larger manufacturers to diversify their sales and distribution and reach a wider consumer audience.

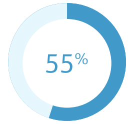
Manufacturers' use of DTC



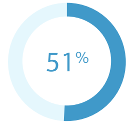
of manufacturers already sell directly to consumers



of manufacturers say DTC is good news for both consumers and manufacturers alike



of manufacturers using DTC say this has increased overall sales



of manufacturers agree that DTC businesses have improved the market

Technology that helps build brand awareness, permits direct selling, supports processes and captures customer data is essential to successfully support the growth of DTC sales. Our survey shows that 96% of manufacturers that already use DTC sell directly through their own websites or plan to do so in the next five years, and many are developing their online sales presence through social media. For example, 72% currently use or plan to use Instagram to sell their products, a figure that rises to 79% for Facebook.

Balancing the costs

Technology is needed to support the rise of DTC and it's not just for the front end, consumer-facing platform. More than half (58%) of the manufacturers we spoke to are looking to digitalise their distribution process. Using technology to streamline picking, packing and distribution is key to delivering on consumer demand.

The same technology also has an important role to play in making the strategy cost effective, because DTC does of course come with an operational cost. Manufacturers traditionally use wholesalers, retailers and other third parties to provide the infrastructure to reach consumers – whether that's shop space and e-commerce sites to display their goods, warehousing to store the goods, or logistics agents to get products in front of consumers across multiple markets.

> "Using technology to streamline picking, packing and distribution is key to delivering on consumer demand."

DTC also requires a strategic shift and increased investment in infrastructure, people and skills. However, the potential benefits called out by our survey respondents could off-set these challenges, making it worth the time and effort for many businesses.

DTC advantages include:

- Revenue growth
- Price reduction for the end user
- Stronger and closer relationships with the consumers
- Broader customer base
- Increased sales outside the UK
- Improved speed to market
- Enhanced customer data

Managing risks and opportunities

Some manufacturers will be understandably wary of the potential to damage existing relationships with wholesalers and retailers. In this report, we explore both the potential challenges and opportunities of implementing a DTC strategy – even at a time when business conditions are challenging, this could be game changing.

For some, particularly those operating in consumer-facing goods or manufacturers of premium products, the benefits may outweigh any challenges. For others, meanwhile, their status quo of selling directly to businesses or using the traditional chain of wholesalers and retailers remains more appropriate.

What is important to understand is that DTC isn't an exclusive strategy. It can be used as part of an omni-channel approach to enhance sales and reach a broader market. The diversification of revenue streams can also reduce the dependency on a limited number of relationships. In a shifting macro-environment, where there are numerous challenges faced by businesses across the industry, DTC could be a major opportunity worth exploring and an important strategy to beat growth targets.

Lee Collinson
National Head of Manufacturing, Transport and Logistics, Barclays Corporate Banking

DTC – a growing trend

Direct to consumer sales is creating disruption within the sector, but it does offer the potential to revolutionise relationships between manufacturers and the end consumers of their goods.

Direct to consumer (DTC) sales is a growing phenomenon, disrupting traditional goods-to-market approaches by allowing manufacturers to sell directly to consumers, usually through their own online sales channels instead of via wholesalers and retailers. Many businesses have already benefited from this strategy, with breweries, clothing manufacturers and personal grooming businesses all taking advantage.

DTC adoption is also gathering pace in line with wider trends, such as consumers' increasing use of e-commerce. This could explain why 39% of businesses using the DTC approach have only done so in the past five years, while 55% of businesses using the strategy have increased their sales through the channel in the same time span.

Global uptake

DTC as a sector trend is more mature in the US and in Canada, where research identifies it as a response to consolidation within the retail sector, forcing brands to adopt DTC as a defensive strategy to retain control of their products and goods.[3]

Defensive or opportunistic, surveys show DTC across fashion, clothing and footwear verticals has more than doubled in the US in the past decade, with predictions that it could grow by a further 40% by 2028.[1] Online direct sales of mattresses in the US reportedly doubled – from 5% to 10% – between 2016 and 2017, and within the furniture and appliances segment, there are reports that DTC is expected to increase by 11% per annum in the 2018-22 period.[4]

Facilitated by the development of technology and increasing digitisation, DTC has grown as a strategy alongside rapid advances and innovations in sales distribution channels and infrastructure. This has led to a blurring of the traditional lines between industries, including that between manufacturing and retail distribution. The rising influence of social media has also enabled businesses to both communicate with and sell directly to consumers, as well as to transcend national boundaries to create and grow export sales.

The rise of digital native businesses

The opportunities for DTC to bypass retailers, wholesalers and other third parties to access consumers directly has spawned a whole new generation of start-up DTC businesses. In the UK, these 'digital native' DTC entrants include London-based sofa manufacturer Made.com, dental subscription service Brushbox and global brands Harry's and The Dollar Shave Club in the shaving products sector. More start-ups and recognised names are likely to follow, especially if the UK follows the trend across the Atlantic.

In the US,[5] for example, a reported 400+ start-ups have entered the DTC market, and with the participation from more established brands such as Nike US, DTC sales have been increasing by around 30% per annum. In 2017, DTC accounted for at least 13% of all e-commerce sales.[6]

This success has attracted the attention of UK manufacturers. Research by Cranfield University identified that almost half (48%) of manufacturers have built DTC channels, and those manufacturers leading the move expect DTC sales to increase by 5% annually over the coming five years. Almost all (87%) see DTC as relevant to their products and consumers.[2] With the UK leading the world in terms of the number of online sales as a proportion of overall sales, the familiarity of the UK consumer with digital channels could create a ripe market for manufacturers embarking on a DTC strategy.

Understanding customer demands

DTC is not suitable for all manufacturing sectors of course. In contrast to the Cranfield University study, 28% of respondents in our survey who currently don't use the DTC channel highlighted that their products aren't relevant for the consumer market – their goods being manufactured for use by commercial enterprises, for example. Additionally, delivery costs and individual customer fulfilment challenges will likely see manufacturers of high volume, low value goods and those producing convenience goods maintain the use of wholesalers.

An additional challenge is the suggestion of digital fatigue – consumers wanting to only engage with a limited number of different marketplaces online – and this could limit the scope of some DTC strategies. P&G's CEO, for example, notes that: "…our belief so far is that most consumers do not want to have a lot more accounts for narrow parts of their daily or monthly needs."[7] However, despite this sentiment, P&G maintains ownership of the Gillette shave club and is trialling DTC across other products.

As a trend, DTC provides the biggest opportunities for those segments manufacturing consumer-facing goods, such as razors, make-up, fashion and footwear, or premium segments, such as vintage wines, Scotch whisky and chocolates. According to KPMG, for example, growth of sales through DTC channels is expected to increase by 5% p.a. in the food and drink, household goods and beauty products segments, with the study also reporting that 48% of manufacturers in these segments have plans to build DTC capabilities.[8]

The arrival of new entrants and, more particularly, the lowering of the threshold in terms of the market participation that DTC offers, threatens to disrupt the sector. 51% of our respondents agreed that DTC brands have improved the market by encouraging businesses to up their game. When Harry's entered the UK market, for example, market share rapidly grew, with their sales rising 250% between 2017 and 2018.[9] Taking on the legacy giants in the razor segment by lowering prices and using the DTC strategy forced the bigger brands to sit up and take notice. Unilever's $1bn purchase of the Dollar Shave Club and P&G's launch of the Gillette shave club were their response to address the competition.[10]

Wider implications for cross-sector disruption

It's not just manufacturers themselves having to come to terms with the rise of DTC. Its implications will be felt across wholesale and retail sectors too as manufacturers cut out the middle agents. Our survey shows that over the past five years, the biggest change to manufacturers' sales strategies has been to increase direct sales to consumers while decreasing sales via retailers.

Furthermore, 55% of those businesses that have changed their strategy to use DTC say that this move has increased total sales – potentially a vital strategy for many businesses wishing to hit growth targets or seeing current markets dry up. However, a fifth of respondents who do not use the approach were mindful of the potential conflict that a move to DTC could cause to their existing relationships with wholesalers (21%) and/or retailers (19%).

It's important to understand that DTC isn't necessarily an all-or-nothing strategy. Even the DTC digital natives are exploring other options to grow market share. Harry's, for example, entered into a partnership with Boots in 2019 to broaden its target market. Existing, large manufacturers don't need to divest their current channels of distribution, but leverage their scale and deep pockets to invest in DTC as an alternative channel and revenue stream to support growth ambitions.

DTC sales proportions globally

	Online sales as a proportion of all retail sales	DTC as proportion of all online sales	DTC as proportion of all retail sales
Canada	8.2%	15.5%	1.3%
China	16.6%	4.5%	0.7%
France	9.7%	8.5%	0.8%
Germany	11.2%	8.0%	0.9%
India	4.8%	1.5%	0.1%
Japan	6.2%	7.0%	0.4%
South Korea	12.0%	7.5%	0.9%
Spain	6.7%	4.5%	0.3%
UK	18.2%	8.0%	1.5%
US	11.0%	17.0%	1.9%

The benefits and risks of DTC adoption

Successfully utilising a DTC approach can bring cost and resource efficiencies, but it requires a full analysis of the opportunities and challenges to ensure it aligns with business objectives.

The majority of businesses put a constant focus on cost reduction and efficiencies. The benefits of cutting out third parties, such as wholesalers and retailers, through the DTC approach may therefore seem obvious. It could explain why 26% of businesses using a DTC channel have been able to reduce the price paid by the consumer for their goods through greater efficiencies, thereby making their product even more attractive. Certainly the advantages of DTC called out by our respondents make a strong case for its adoption.

Carried out successfully, a DTC strategy can boost sales as demonstrated by experiences in the US (See page 7). A report published by Cranfield University[2] identified five main benefits for manufacturers developing DTC capabilities:

1. Better control and clarity of their brand
2. Full share of the 'customer experience' – i.e. brand alignment from product design, brand marketing, the purchasing process and post-purchase aftercare
3. Faster speed of taking products to market
4. Direct access to the customer, potentially yielding a huge volume of valuable data and insight
5. Ability to provide customers with a wider range and choice of products and designs.

These replicate the findings from our own survey, (right).

Major benefits experienced by businesses include:

- **45%** saw a growth in revenue
- **38%** accessed a broader customer base
- **32%** improved their speed to market

Additional benefits noted by DTC businesses:

- **29%** witnessed an improvement in customer data
- **26%** were able to reduce prices for end users
- **24%** increased employee/business productivity
- **28%** increased sales to customers outside the UK
- **26%** fostered closer relationship with end-user consumer
- **18%** improved employee efficiency with new smart technology
- **28%** could create greater personalised products
- **25%** improved their stock management
- **18%** witnessed an increase in employee applications

Considering costs as well as benefits

For many manufacturers, the financial gains are clear to see: from improved revenue to increased sales and enhanced productivity and efficiencies. However, building and maintaining a successful DTC strategy can also be costly, particularly for legacy manufacturers which have already committed to the more traditional wholesale/retail sales and distribution model.

Our own study shows that the investment required to achieve DTC sales across the sector is £2.694bn in 2020, rising to £3.010bn per annum by 2025. This investment will be required to help them overcome common DTC challenges. These include building fulfilment and business infrastructure, DTC requirements identified by 24% and 20% of our respondents who currently use the strategy respectively.

Investment will also be needed by the 58% of manufacturers which plan to digitise their distribution processes in the next five years. Similarly, for those businesses which did not start out with a DTC strategy, or which are planning to introduce it in the future, investment would be needed by the:

- 36% which will need to train and upskill their existing workforce
- 32% which would need to hire more people
- 31% which would introduce new products
- 23% which would need to change their business premises.

As with other growth strategies, a rigorous cost and opportunity analysis and thorough interrogation of possible ROI is therefore essential to reduce the risks associated with investment and ensure the potential benefits are secured.

Beyond financial gains

Getting closer to customers provides additional benefits for manufacturers, and allows for better relationships that can improve brand loyalty, the creation of targeted or personalised products and access to a more diverse or broader customer base. In today's market, these could be key strategies in maintaining long-term relationships and ongoing sales with target audiences. However, the risks of failing to manage those relationships can be high. Existing employees may, for example, struggle to transfer their skills in B2B customer relationship handling to the potentially more demanding B2C segment, and reputational damage can be hard to repair.

Creating the ability to gather and use customer data effectively through DTC sales can offer significant benefits if the manufacturer has invested in the skills necessary to analyse, interpret and utilise the data to improve products or deliverability for example. But this ability does need the right people with the right skills to translate the data effectively.

Additionally, DTC gives manufacturers far greater control over their brand, their message and the speed with which products can reach the market, and also the way products are serviced and sold. However, with that comes the costs and risks of managing a robust distribution strategy that delivers products quickly and safely and that, potentially, can handle returned stock and its associated administration effectively. To enjoy the financial and relationship benefits that DTC can offer, manufacturers must be aware of the potential risks to sales margins and their brand reputation, and take steps to manage them through the deployment of the right technology, skills and people.

Investment linked to DTC (£millions)

	2020	2025	2020-2025
Food & drink	649	669	4,598
Textiles & apparel	94	108	698
Wood & paper	283	304	2,043
Chemicals, rubber, plastics	408	468	3,023
Metals	213	230	1,535
Electronics & electrical	155	179	1,155
Machinery & automotive	692	827	5,221
Others	199	225	1,469
Total	2,694	3,010	19,743

Pursuing a DTC strategy

For manufacturers which see the potential for DTC to improve – or even transform – their business, there will still be some challenges to overcome.

For manufacturers which traditionally rely on their wholesale or retail partners to market, advertise and sell their products, DTC could present some challenges. In our survey, the areas that would usually be managed by these supply chain partners were identified by those businesses currently using a DTC approach as the top challenges they faced when adopting the strategy:

- 41% identified building brand loyalty
- 32% felt increased responsibility for every touchpoint within the supply chain e.g. inventory management
- 31% pinpointed managing customer interaction, such as handling stock returns.

Nearly a quarter of respondents (24%) who use DTC called out a lack of fulfilment infrastructure as a key challenge to overcome, while 16% of those not using DTC highlighted it as a major obstacle. 14% of those not using DTC also cited the management of customer interactions as a key barrier.

> "Shifting a business culture from a technical, B2B focus to a consumer-facing model requires a whole set of new skills."

The rise of social media selling

However, with clear opportunities for a number of manufacturing segments, businesses are actively looking to address these challenges. For example, manufacturers are increasingly turning to social media to build brand awareness as well as to sell their products. We found that the use of platforms like Instagram, Snapchat and Facebook are increasingly being used by those businesses currently using DTC channels to reach new markets:

- 96% currently, or plan to, sell via their own website
- 79% currently, or plan to, sell via Facebook
- 72% currently, or plan to, sell via Instagram
- 58% currently, or plan to, sell via Snapchat.

While customer-facing technology is facilitating direct sales and allowing companies to harvest large amounts of data, manufacturing firms traditionally lack the in-house skills necessary to manage, analyse and interpret that data, and may therefore be missing opportunities to enhance their product offerings, cross-sell or spot trends. Unfortunately for these businesses, accessing these skills, whether through recruitment or upskilling and training current employees, can be costly.

Employing a data analyst is one thing, but shifting a business culture from a technical, B2B focus to a consumer-facing model requires a whole set of new skills. Securing the skills needed to market and sell to customers and offer customer service throughout the sales process, while also managing the supply chain and distribution are some of the most significant challenges manufacturers face in adopting DTC. Around a third of respondents who did not start out with a DTC strategy or are planning to use the approach in the future highlighted the need to either hire more staff (32%), access new skills (34%) or up-skill their existing workforce (36%) in order to implement DTC successfully.

Job creation and economic gain

Adopting a DTC strategy does, therefore, offer economic opportunities in terms of job creation, with our survey results showing a clear potential boost for regional economies through an ability to reach a broader market. Nearly a quarter of businesses (24%) using DTC also recognise that increased employee productivity and satisfaction are potential benefits of the approach, with 18% suggesting that adopting a DTC strategy has increased applications for jobs, perhaps through a growth in opportunities and awareness.

It is not just businesses and employees that stand to reap the benefits of DTC. Our respondents who sell using DTC highlight a number of advantages for customers, which includes an ability to lower prices (26%), the speed to market (32%) and opportunities for product personalisation (28%).

Balancing customer growth

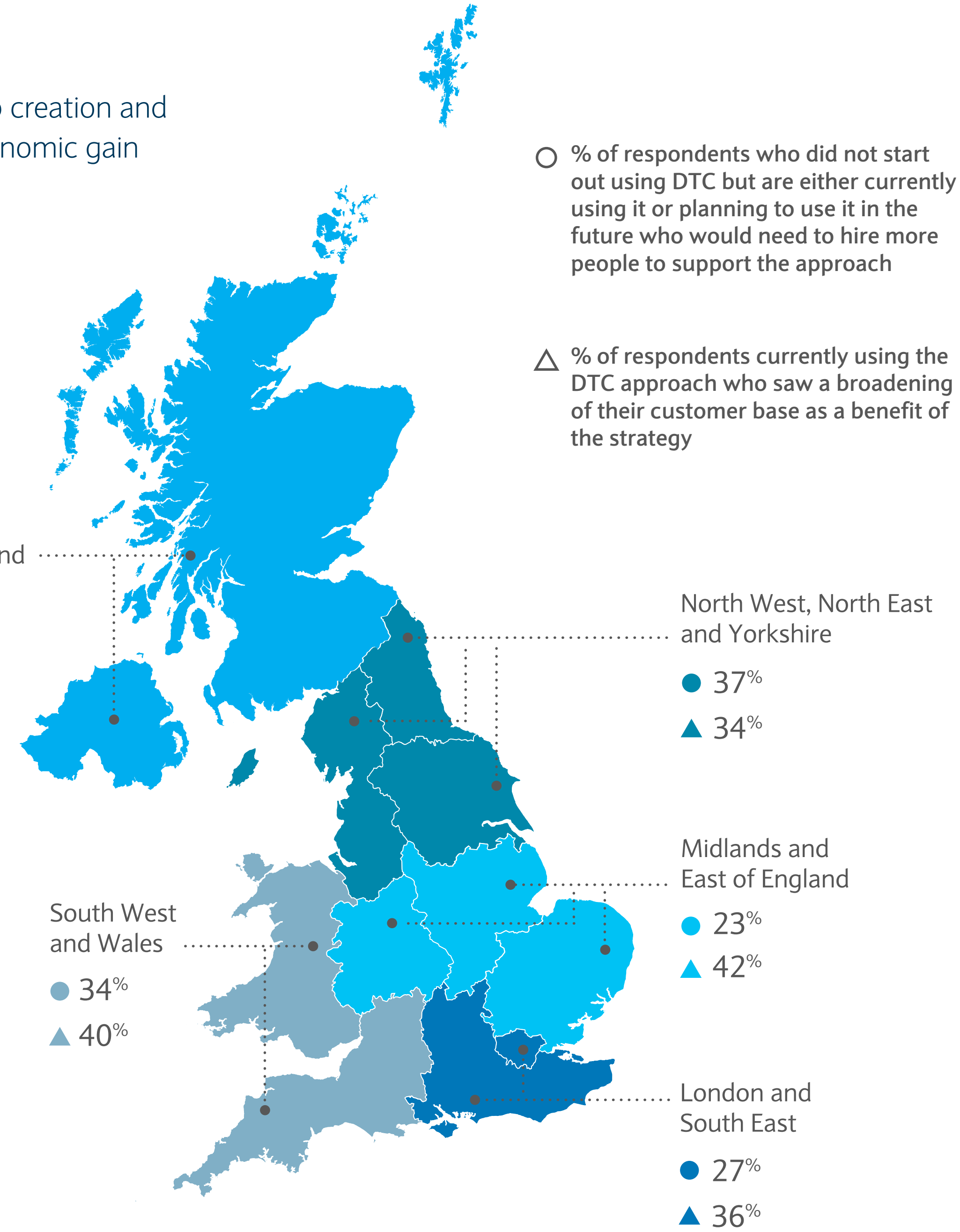
DTC, according to over a quarter (26%) of those who use the approach, also offers an opportunity for businesses to build closer relationships with customers, which can impact future buying decisions, guide the product range, and increase both loyalty and recommendations.

However, one of the challenges of building closer relationships directly with consumers, particularly for established manufacturers, is in not alienating partners within the existing supply and distribution chain. Around a fifth of manufacturers say that selling DTC has reduced their relationships with wholesalers and retailers, while others cite the potential of a reduction in these relationships as a key reason for not selling DTC.

It's clear that the perceived dependence on these relationships, and the channels they present for reaching customers and for logistical support, has meant manufacturers fear a backlash from retailers or wholesalers if they pursue DTC in direct competition.

> "DTC also offers an opportunity for businesses to build closer relationships with customers."

Potential job creation and regional economic gain



However, with almost half of our respondents who sell DTC experiencing revenue growth (45%) it's a risk worth taking for many businesses. Investing in improving their capacity to sell DTC is a strategy that many are adopting or considering. The average investment that manufacturers in our survey plan to make in the next 12 months in order to improve their ability to sell DTC is close to £320,000.

As part of our study, we developed two forward-looking scenarios to explore the potential impact of expanding DTC sales channels for UK manufacturers. These were informed by the latest national and regional manufacturing data and by independent economic forecast for UK manufacturing and its sub-sectors.

Scenario 1

The first scenario assumes that the proportion of sales accounted for by DTC channels continues to grow steadily, following the same trajectory that we've seen over the last five years.

If 'business as usual' continues, then UK manufacturers' sales of DTC will see a 12% growth by 2025 to £102.8bn. Five sectors achieved double-digit growth within this scenario, with machinery and automotive (21%), chemicals, rubbers and plastics (15%) and textiles and apparel (14%) showing the greatest gains. Meanwhile, the East Midlands, Yorkshire and Humber and the North West regions would benefit most, with growth of 16%, 13% and 12% respectively.

Strategic benefits of expanding DTC channels (2019-2025)

	Scenario 1	Scenario 2
Extra sales of manufactured products using DTC	+11.0bn 12.0% increase	+13.3bn 14.5% increase
Proportion of sector sales attributable to DTC (currently 15.6%)	Increase to 16.9%	Increase to 17.3%
Region expected to benefit most	East Midlands £1.736bn increase	East Midlands £2.166bn increase
Business sector expected to benefit most	Large manufacturers of 250+ employees	Large manufacturers of 250+ employees
Total number of extra jobs actively supported by DTC sales	+21,100 5.5% increase	+31,400 8.2% increase

Scenario 2

The second scenario is predicated on a larger proportion of UK manufacturing businesses developing effective strategies to utilise DTC channels, and that a proportion of businesses that have already adopted the strategy expand the scale of their financial and other investments in these capabilities.

This greater commitment to DTC proves much more advantageous to the manufacturing industry and to the wider UK economy. The industry would add a further £2.3bn of DTC sales compared to Scenario 1, an increase of £13.3bn (15% growth) between 2020 and 2025. The proportion of total sales attributable to DTC would increase from almost 16% in 2019 to over 17% by 2025.

In this scenario, the same five leading sectors still display double-digit growth but now at a higher level. Electronics and electrical equipment gains the biggest boost, however, with 14% growth in Scenario 1 and 18% in Scenario 2.

Once again, the region expected to see the largest increase in sales is the East Midlands, with predicted extra sales of £361m per annum. Yorkshire and Humber, the North West, the West Midlands and the East should each see an extra £1bn or more of turnover in the coming five years.

The number of jobs supported via the DTC channel would also increase more substantially in Scenario 2. Whereas Scenario 1 would see the number of roles growing from 382,300 to 403,400 in the five years to 2025, the total number of roles under the second scenario would increase to 413,700.

Similar differences occur in terms of the real value of Gross Value Added associated with manufactured products sold via DTC which is currently £28.9bn for 2019. Under Scenario 1, this would increase to £32.5bn by 2025, whereas Scenario 2 would see the figure rise to £33.3bn within the same timescale.

Manufacturing enhanced growth

Both scenarios demonstrate the potential benefits for manufacturers and the wider UK economy if the sector embraces DTC to a greater degree. There are obvious challenges to navigate – the need to recruit new skills, avoiding damage to current relationships, building new digital and physical infrastructure etc. However, the potential growth revealed from the two scenarios shows what could be achieved from a committed investment in the DTC channel. For manufacturing businesses themselves, it could be worth reviewing current and future strategies to see if DTC can form a vital part of their consolidation, diversification or growth ambitions.

A natural step?

Investing in a DTC distribution strategy has delivered independent oat miller Mornflake with a new route to consumers, and is also helping drive the firm's future direction.

Cheshire-based Mornflake has been milling oats in the same family since 1675, making it Britain's fourth oldest company. The business, passed down through 15 generations, mills and markets oats, oatbran and muesli which it now supplies to more than 80 countries around the world. The brand is also a perfect example of how new routes to market can help a business evolve to reach new customers.

Mornflake is currently stocked in all major supermarkets, through health food stores such as Planet Organic and Wholefoods, and is distributed through wholesalers as well as online channels, including Amazon. It's a complex distribution model.

In recent years, however, Mornflake has been increasing its investment in DTC distribution, a move which is not only helping the company to expand its customer base, but also gather valuable insights that feed its future direction.

> "DTC has given us a direct relationship with the consumer, which means we can tap into them more easily for feedback and suggestions about products."

John Borrowdale (Director), James Lea (Director), John Lea (Managing Director) and Edward Lea (Director).

Making it easy

"As a business, we've always been focused on how we get our oats in front of consumers," says James Lea, Managing Director of Mornflake's parent company Morning Foods Limited. "We've had a telesales offering since the 1980s, so DTC was not completely new to us.

"However, the introduction of the internet was a complete game changer and something we really wanted to leverage. So our focus has been on making purchasing as easy as possible for consumers. That means, whether they pick up the phone, visit us through our website or drop us a direct message on Instagram or Facebook, we will pick that up and direct them into our omni-channel sales process."

Equipped for success

Mornflake's move to DTC has seen the business invest in technology, staff and warehousing to ensure it is fully equipped to deliver on its commitment of "making it easy" for the consumer.

However, James says another crucial element has been raising awareness of the Mornflake brand and ensuring consumers know that they have the option to purchase directly. As a result, the company has also invested in a variety of social media marketing.

"A lot of our marketing activity now revolves around working with foodie and healthy lifestyle influencers – they often review our oats and share recipes using them. We're gaining access to new audiences via our influencers all the time.

Paid-for social media advertising is also increasing, he adds: "Social media is an advertising vehicle and if you really want to get the best from it, you need to invest in reaching audiences beyond your existing followers."

From mill to bowl

Implementing a thorough and effective DTC strategy has produced some challenges for the business.

Mornflake, which is dedicated to helping customers "wake up to a better-quality breakfast each and every morning", recognises the importance of making sure the product gets there in great shape. "The reality is that you're often dealing with a distribution network that is used to throwing cardboard boxes in the back of vans," James says.

In response, the business has invested in "the best rather than the cheapest" distributors, as well as using stronger and more durable packaging for distributed products, he explains.

Growth and innovation

Despite these challenges, James says the benefits of DTC far outweigh the cost and effort.

"Far from just taking orders from new customers, the internet and social media channels have allowed us to genuinely connect with audiences," he says. "DTC has given us a direct relationship with the consumer, which means we can tap into them more easily for feedback and suggestions about products."

"DTC might feel like a natural thing to do, but it is important to know your market, know your competitors, identify ways to differentiate yourselves and then target the right customers with the right products."

In more than one instance, that feedback has led to the launch of new products across its channels – both DTC and traditional.

This has also helped counter any potential conflict with retailers and wholesalers about Mornflake's use of DTC. "Through direct feedback and by monitoring our own sales trends, we can better guide our stockists on the products they too should be selling," says James.

Look before you leap

James has a clear message for other companies looking to develop a similar strategy, regardless of their sector.

"DTC might feel like a natural thing to do – because every company wants to connect with more customers," he says. "However, it is important to know your market, know your competitors, identify ways to differentiate yourselves and then target the right customers with the right products. And you must be prepared for the speed of the online world. It's far quicker than traditional manufacturing."

Strategies for success

While the impact of DTC on UK manufacturing will be disruptive, there are rewards available, particularly for those who embrace it as a complementary tool in an omni-channel strategy. In order to fully achieve the potential that DTC offers, a number of actions would be required:

Engage

Having a greater awareness of what DTC can offer can help secure the commitment from the Boards and senior management of UK manufacturers, helping businesses to embrace the opportunities and potential offered by developing the strategic capabilities.

Recruitment and training

Investment directed at in-house data analytics software and expertise is required to enable the business to benefit from the large volumes of user and other data. This could include hiring new employees to make the most of this direct, or retraining current colleagues. Additional recruitment or re-training may be needed to fulfil other roles linked to the DTC strategy.

Strategic development

DTC is not an exclusive strategy, the maintenance and further development of existing, complementary distribution channels, including the maintenance of existing relationships with wholesalers and/or retailers, is a must to ensure a diversified revenue stream and maximum consumer reach.

Invest

An accelerated and deeper investment in developing in-house logistics infrastructure and/or partnerships or collaborations with specialist logistics providers can help increase the potential to open up new customer bases.

Communicate

A commitment to developing brand and product awareness is required to harness the potential of social media – a key medium to communicate directly and engagingly with the target audience and thereby grow sales and revenue opportunities.

About the authors

For further information and to find out how our sector specialist team can help your business respond to the issues outlined in this report, please contact Barclays' Head of Manufacturing, Transport and Logistics, Lee Collinson.
To find out more about how Barclays' can support your business, please call 0800 015 4242.*

Lee is an experienced banking professional who joined Barclays in 1988, undertaking a number of roles across client coverage, debt finance and credit. He is responsible for all Barclays' UK clients in the Manufacturing, Transport and Logistics sectors.

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