

Consumer Packaged Goods Practice

# Direct-to-consumer e-commerce in appliances: A strategic growth opportunity

By aligning on four key factors, appliance companies can improve margins and grow revenues from DTC e-commerce.

*This article is a collaborative effort by Dave Fedewa, Nicolas Jabs, Ramji Sundararajan, Kevin Wei Wang, and Stephan Zimmermann, representing views from McKinsey's E-commerce Global Initiative, NeXT Commerce.*



**Direct-to-consumer (DTC) sales** have been a significant growth driver across various industries. Companies are recognizing the multitude of advantages that come with this approach, such as significantly improved customer loyalty and higher margins. Appliance companies are no exception, and new data show they have a large opportunity to increase their share of DTC sales. Recent analysis reveals that while 32 percent of customers visit manufacturers' websites during their purchase journey, only 1.6 percent make an e-commerce purchase from them. As a result, it is no surprise that 80 percent of companies in the appliance industry have identified increasing their share of DTC sales as a priority over the next three years.

## DTC e-commerce: The key to growth and higher margins

The DTC channel, specifically e-commerce, has proven to be a vital growth driver across industries. Companies have experienced significant improvements in customer lifetime value and higher margins due to this channel, which also enables new subscription business models and additional services. McKinsey benchmark research indicates that companies across various sectors are seizing this opportunity, with high aspirations for the DTC channel in the future. The appliance industry can follow suit and capitalize on this trend.

## The direct-to-consumer (DTC) channel is a key growth driver across industries.

### Key benefits of DTC channel<sup>1</sup>



#### Higher margins

Capture higher margins and net revenues by directly owning the sale versus via indirect channels (including Amazon and marketplaces)



**20–50%**

Gross margin increase



#### Increased lifetime value

Drive toward higher rate of cross-sell, upsell, and shorter renewal cycles enabled by first-party data and direct customer relationships



**20–30%**

Lifetime value increase



#### Strengthened loyalty

Create higher connection and brand loyalty with customers to defend against competitors



**5–10%**

Gain in market share



#### Expanded customer base

Expand market share and new-customer acquisition by providing a better branded customer experience

<sup>1</sup>Typical impact seen at clients; results depend on sector dynamics and initial starting point.

## McKinsey's DTC benchmark research indicates that, across industries, companies are embracing the DTC e-commerce channel.

### Experience of companies with DTC channel



**+10%**

increase expected by pre- or early-transition brands in their DTC share of total sales over the next 3 years



**+60%**

of companies view DTC's core value propositions as better buying experience or unique products and offers



**+11%**

higher contribution margin versus traditional channels for companies with large DTC presence (>20% of revenue), showing benefits of scale in digital



**100%**

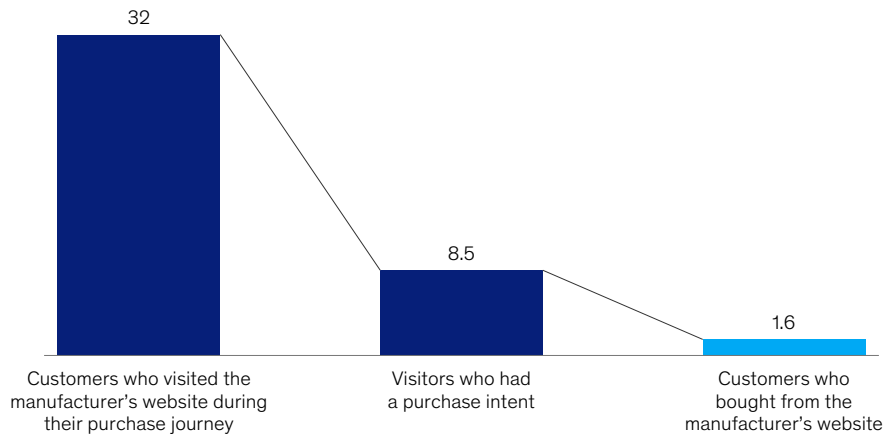
of companies with low DTC revenue view channel conflict as a serious concern, compared to less than 50% of those with at-scale DTC revenues, indicating that the conflict can be managed

## Transforming the customer journey: From visitors to buyers

Although 32 percent of customers visit manufacturers' websites during their purchase journey, only 1.6 percent end up buying from them. This glaring disparity signals that companies must develop an improved and seamless DTC e-commerce experience to convert these high-intent visitors into buyers. Today, the top reasons shoppers visit a manufacturer's website are to obtain product details, reviews, and service information.

**Today, 32 percent of customers visit a manufacturer's website during their purchase journey, but only 1.6 percent buy from it.**

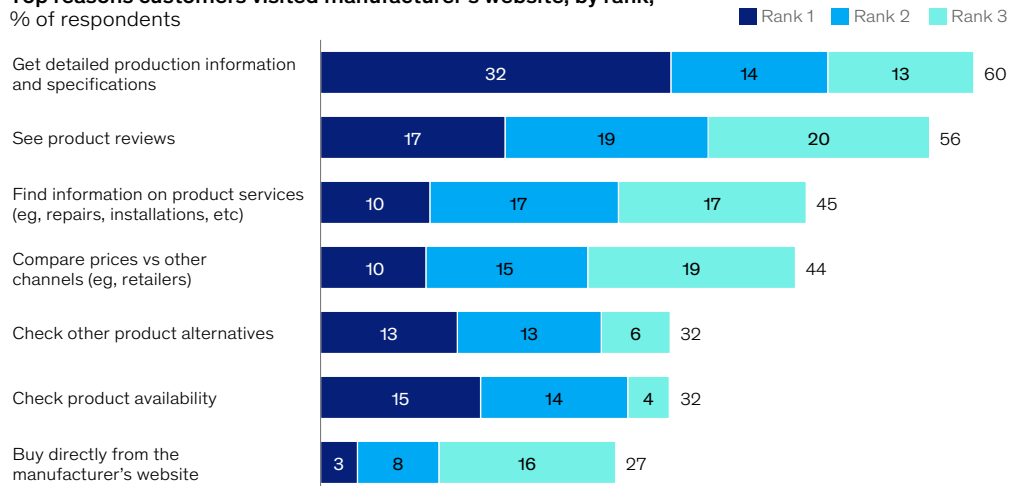
Customer purchase journey on manufacturer's website, %



**Customers visit manufacturers' websites primarily to get product details, reviews, and service information.**

Top reasons customers visited manufacturer's website, by rank,<sup>1</sup>

% of respondents



Note: Figures may not sum to totals, because of rounding.

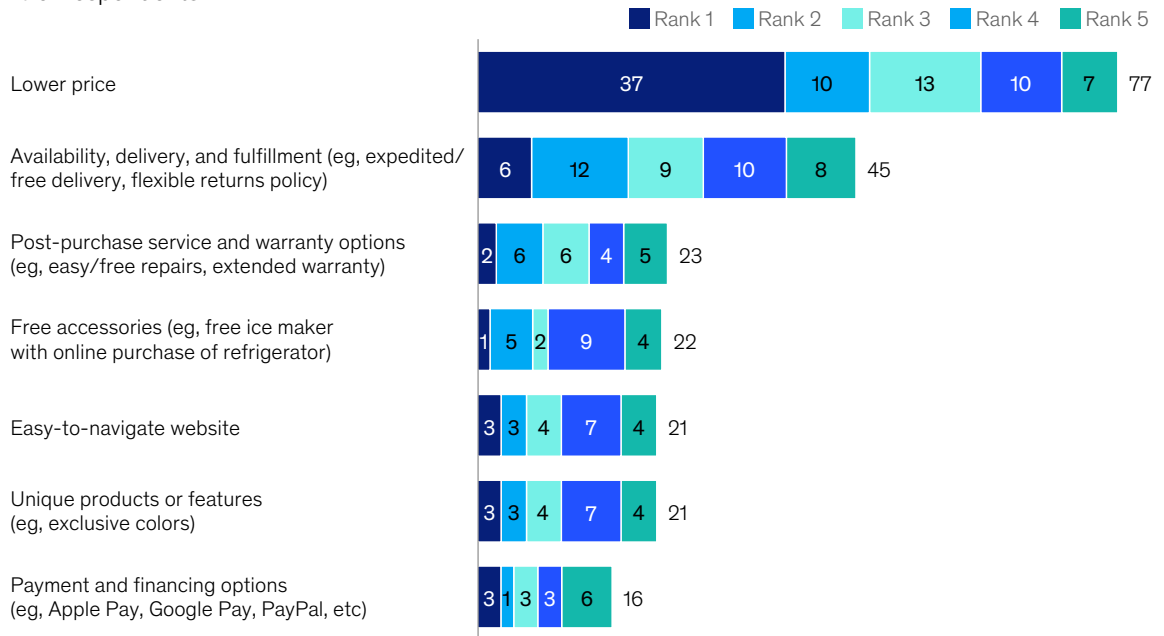
<sup>1</sup>Q: What were the main reasons you visited the manufacturer's website? Please rank your 3 most important reasons.

## Meeting consumer expectations and differentiating offerings

For DTC e-commerce to become a significant channel for appliance sales, companies will need to meet consumers' expectations of pricing benefits and delivery options on par with other retail channels. Services and accessories can also serve as differentiators, attracting customers with unique offerings compared to competitors and potentially fostering brand loyalty.

## To convert visitors to buyers, websites must offer competitive price and delivery options and differentiate themselves on service and accessories.

**Top factors for customers to purchase from manufacturer's website instead of elsewhere, by rank,<sup>1</sup>**  
% of respondents



Note: Figures may not sum to totals, because of rounding.

<sup>1</sup>Q: Which of the following would be most likely to make you purchase from the manufacturer's website instead of elsewhere? Please rank your top 5, from most important to least important.

## Overcoming organizational barriers to DTC expansion

While DTC sales for appliances have experienced considerable growth, several barriers to further expansion remain, including channel conflict: suboptimal e-commerce capabilities, lack of technology, and limited supply chain capabilities. To overcome these obstacles, it is crucial to invest in modernizing the e-commerce experience and technology, as well as in cultivating stronger relationships with suppliers to ensure an adequate supply of goods. Taking these steps can raise the potential for DTC appliance sales to new heights.

## Appliance companies say there are three main barriers to expanding their DTC e-commerce sales.

### Biggest DTC e-commerce challenges faced by appliance companies

#### Channel conflict

- Conflict with retail partners
- Suboptimal e-commerce capabilities (eg, lack of necessary technology)
- Limited supply chain and fulfillment capabilities

#### Lack of digital talent/budget

- Lack of in-house digital talent
- Limited digital media budget

#### Lack of strategy/alignment

- Sales executives' incentive structure
- Organizational alignment on priorities

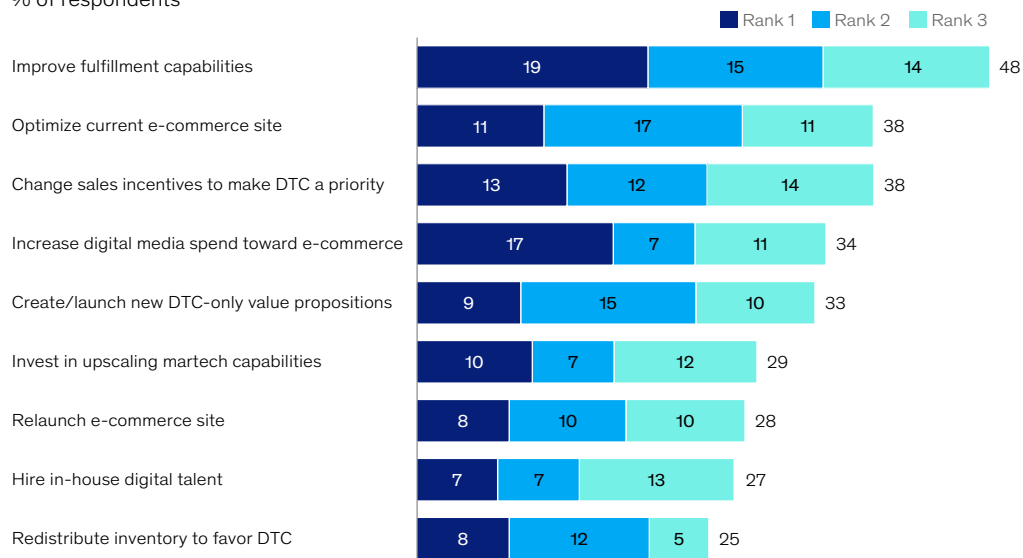
## A strategic and holistic approach to DTC success

Appliance companies must adopt a strategic and holistic approach to DTC initiatives to optimize their e-commerce success. Four factors have been identified as key to a successful DTC transformation:

- *Clear DTC strategy:* Develop a well-defined plan outlining objectives and goals to serve as a road map to success. This includes a thoughtful pricing strategy in which price parity is key.
- *Distinctive customer experience:* Focus on building and creating an optimized e-commerce experience that caters to customers' needs and preferences, and commit to investing in the features and technologies that differentiate the shopping experience from that of competitors.
- *Cross-functional enablers:* Encourage collaboration and alignment across various departmental silos within the organization beyond just marketing or channel sales. This needs to be a top company-wide priority to succeed.
- *Deep understanding of customer needs:* Invest time and resources in researching and analyzing customer behavior and preferences.

**In addition to current initiatives to expand their DTC e-commerce share of sales, appliance companies should focus on strategic planning for success.**

**Actions companies plan to take over next 3 years to improve DTC performance, by rank,<sup>1</sup>**  
% of respondents



Note: Figures may not sum to totals, because of rounding.  
<sup>1</sup>Q: Please select the 3 most important actions your company plans to take over the next 3 years to improve DTC performance.

## Companies that make successful DTC transformations approach the process holistically, aligning on four key factors.

### Key factors for a successful DTC transformation



#### Develop a clear DTC vision and strategy based on customer needs

- Articulate the DTC vision and strategy before determining where and how to invest.
- Anchor the vision on customer needs, ensuring price and delivery/fulfillment parity with retailers, while finding areas for differentiation (eg, service, accessories, new business models).
- Translate vision into concrete objectives (eg, 40% of total DTC revenues driven by the new channel versus market-place growth).



#### Understand the trade-offs and implications DTC will have on channel relationships and the current operating model

- Channel conflicts may increase due to greater DTC volume, and appliance executives need to recognize and manage this.
- Clearly define what role your DTC channel will play in your sales strategy, and articulate this to your sales partners and align it with your sales teams' objectives.



#### Focus on capability building and stakeholder alignment

- Build capabilities from day one—it will be a journey. Trying (and sometimes failing) is the best way to learn.
- Building DTC requires new skills, people, and ways of working. Bring the whole organization along.
- Appliance executives recognize that e-commerce and fulfillment capabilities are two of the top challenges to growing DTC. Invest in these capabilities to compete with retailers.



#### Focus on capabilities and use cases that matter most

- Have a clear perspective on which capabilities are "tickets to play" (table stakes that are necessary to compete) versus "tickets to win," where your company has an opportunity to differentiate itself.

## Scaling DTC involves a clear strategy, a distinctive customer experience, and cross-functional enablers.

### Key factors for scaling DTC

#### DTC strategy

- Design clear customer value proposition
- Actively manage channel conflict



#### End-to-end customer journey

##### Attract

*Generate traffic to the site*

- Prospect personalization and targeting
- Upper- and lower-funnel marketing execution (eg, re-targeting, paid social, search engine marketing)
- Marketing content and automation

##### Discover

*Drive customers toward conversion*

- Seamless user experience (UX), navigation, search, account creation (cross-device)
- Product, content, and merchandising
- Pricing and promotions

##### Purchase and fulfill

*Make buying easy*

- Friction-free checkout
- Payment and financing options
- Fast fulfillment (order management, routing, carrier selection, schedule)

##### Engage

*Create loyalty and repeat purchases*

- Personalized customer engagement
- Loyalty/community
- Social sharing/engagement
- Support and service

#### Cross-functional enablers

Dedicated DTC organization and agile operating model

Scalable technology stack (including e-commerce, integration, and marketing technology)

Operations and supply chain (product preparation, fulfillment, logistics/delivery, post-delivery)

Data and analytics foundation (consumer, customer, operational and financial analytics)

Partner/vendor management

## Critical questions for companies to evaluate

Even with the above four key factors for successful DTC transformations, there is a series of critical questions that appliance companies will need to address and align around. These include:

- What does the aspirational omnichannel journey look like? How might offline retail and omnichannel play complementary roles in the consumer journey?
- How can DTC economics be optimized and integrated across channels—including post-purchase installation, services, and maintenance—rather than operate in silos?
- What are the key points of differentiation between channels? What services and offerings could be made available on the DTC website besides sales-side commerce—such as configure-to-order, customization, and trade-in?
- How does the DTC website leverage traffic from other content websites (seeding on YouTube, Instagram, professional review websites, online communities)?
- How can the DTC website experience itself be a positive differentiator (for example, through live commerce or video)?

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