Manufacturer-Direct

Definition and types

The term Manufacturer-Direct, also known as Factory-Direct refers to a business model in which the manufacturer sells its goods directly to the end user of the product.

Thanks to Internet and the e-commerce capabilities, the number of manufacturers that decide to go online and sell direct to their customers without intermediaries, is increasing very fast.

There are 4 types of manufacturers ¹ who sell direct to consumers online, those with:

- No retail stores, sell only through retail partners (e.g. Bose)
- Retail stores and retail partners (e.g. Sony Store)
- Retail stores, no retail partners (e.g. American Apparel)
- No retail stores or retail partners, only available online/phone (like Dell used to)

The Dell success recipe

As previously stated, the factory direct option was particularly facilitated in the 1990s by the development of the e-commerce but also through the distribution of catalogues. Major factories, like Dell Computer, started marketing products directly to their market, rather than going through a traditional tiered sale system. Dell counts as an e-commerce pioneer and its strategy of selling over the Internet – with no retail outlets and no middleman – has been as discussed, admired and imitated as any e-commerce model. ²

In early 2000, Dell began to redefine itself as the company that knows how E works. The Direct model was augmented by e-commerce, as customers could easily compare, configure and buy PCs online from the PC vendor, or place the order by phone. A key part of Dell’s success, says Aberdeen Group analyst Kent Allen, is that the site offers consumers choice and control. “Buyers can click through Dell and assemble a computer system piece by piece, choosing components like hard drive size and processor speed based on their budgets and needs. “Their ability to allow people to custom design has traditionally been something that they’re ahead of the game with” Allen says. ³

Advantages of the Direct model

The direct contact with consumers generates a competitive advantage: the main strength of a direct channel is that the full difference between the manufacturer’s cost and the price paid by the consumers goes to the producer, so that the manufacturer has full control over the price to be charged to the consumer. Like Dell Computers, also Apple Computer has a consumer direct program: without going through the reseller and the distribution channel, they get demand information about the downstream site, by bypassing it. Avoiding multiple demand forecast updates is an effective way to mitigate the Bullwhip effect in supply chain. Further advantages ⁴ that characterized the Manufacturer-Direct model are:
the high-velocity in the whole process
the low-cost distribution (e.g. avoiding higher inventory costs)
the unique direct customer relationship (including a firsthand feedback on the product and the possibility to continuously improve the customers’ experience)
depending on the products, the possibility of the build-to-order (BTO) approach
the implementation of a Just-In-Time (JIT) manufacturing strategy
the mass customization to produce custom output
the products and services aimed at specific market segments

Disadvantages of the Direct model

The Manufacturer-Direct model is easy to understand but hard to replicate requires a very tight relationship with suppliers.

Furthermore manufacturers that use a direct channel:

- need more employees
- may have to incur more expenses to promote the product (e.g. they cannot just place the product in a place where consumers will see it)
- may have to sell their products on credit when selling to customers directly.

<note tip>10 Reasons Why Some Manufacturers Still Ponder Selling Online, by Sally McKenzie.</note>

Conclusion

The manufacturer model can be based on efficiency, improved customer service, and a better understanding of customer preferences. The Direct model actually better works in its pure form, the one taught by Dell. “Try to straddle the two business models - direct as well as retail sales - maybe get the overheads of both withouth the clarity of either”\(^5\), thus mixing in the right combination of changes could make this model a living one, abreast of the times.

— Aurora Tedesco 2012/01/04 16:57
