

Reviving D2C with Web 3 Ecosystem

- A disruptive solution for better brand engagement with customers, and converting loyalty points from liability to digital asset

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“Half the money I spend on advertising is wasted; the trouble is I don’t know which half.”

- *John Wanamaker (1838-1922)*

The world has witnessed the continuous evolution of marketing methods, along with the diminishing impact of these methods on brand awareness and promotion. Businesses are increasingly frustrated by their low cost-effectiveness, even with digital marketing, which was once considered a cutting-edge solution with a high outreach rate. However, its effectiveness is waning, as indicated by the increasing marginal cost to maintain the same level of delivery.

Failure of Sales-Funnel Management Process: For any business organization, three functional teams are invariably involved in acquiring and retaining customers: marketing, sales, and after-sales service. However, each of these teams often operates in silo. While marketing focuses on promoting brand to achieve awareness and generating leads, this does not guarantee high-quality conversions to paying-customers. Sales teams, particularly experienced ones, tend to concentrate solely on customers' close-to-deal, neglecting many potential customers. Additionally, the after-sales team is unable to allocate sufficient resources to meet the promises perceived and received by customers from the brand. The combination of marketing and sales forms what is commonly referred to as sales-funnel process, with servicing typically labelled as “after-sales,” playing a lesser role in this process.

Inefficient Resource Allocation: Waste is clearly generated by the siloed nature of business functions and the significant expenditure on nudging promotions aimed at



irrelevant audiences. Furthermore, sales teams often fail to nurture early-stage potential customers into paying-customers, missing out on the opportunity for these potential customers to develop a deeper engagement with the brand over time. As a result, many leads generated from marketing promotions fail to progress to the next stage of the sales funnel.

Marketing Expenditures in the automotive industry: In the automotive industry, marketing typically constitutes about one-third of the *selling, general and administrative expenses* (“SG&A”) budget. SG&A expenses typically amount to around 10% of revenue for established *Original Equipment Manufacturers* (OEMs), with Tesla being an exception, with a lower rate at 5-6% of total revenue. However, new brands, particularly startup EV OEM start-ups, often allocate at least 15% of their total revenue to marketing expenses. Some, like Lucid, may allocate even more, reaching over 30% of revenue in the initial years of operation. (*Sources: company financial reports*)

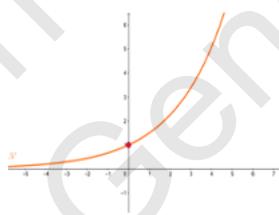
Specifically, Porsche spent almost 1 billion USD on marketing in 2021, that is ~30% of SG&A budget. Among these marketing expenses, ~ 20%-25% (200 million to 250 million USD) was allocated for event activities. Consequently, the marketing spends per car amounted to ~3,000 USD, with a portion of ~1,500 USD allocated specifically for acquiring new customers per car. Additionally, influencer marketing incurred a total cost of 30 million USD.

(*Sources: <https://annualreport2021.volkswagenag.com/divisions/porsche.html>, and analysis report*)

Another study discovered that among the four out of the top 10 OEMs in 2021, marketing expenses averaged 343 USD per car, with costs ranging from as low as 160 USD per car to as high as 790 USD per car. Contrastingly, the top performer (160 USD per car), Tesla, by leveraging its direct-to-customer sales approach, incurred less than 1/3 of the marketing expenses of the bench-marker, showing a significant downward trend towards the lowest levels.

Despite the emergence of numerous marketing approaches and digital marketing channels, to name but a few, influencer marketing, search engine optimization, digital advertising placements, there has been arguably no significant improvement in cost-effectiveness while adding additional incremental costs. Companies have come to understand that the effectiveness of social media marketing and digital advertisements is limited: they can only acquire a few hundred thousand of the "first best" consumers that a brand can hope to acquire. New trends indicate that the cost of PPC (Price Per Click) and digital advertising is escalating substantially due to increased competition. Advertisers from various sectors are eagerly competing for the attention of consumers in the digital space, which forces them to contend with companies from unrelated industries. Gary Vaynerchuk, the founder and CEO of VaynerMedia, a global media agency, stated that "Ninety-eight percent of D2C brands are out of business, they just don't know it yet. They don't have the fundamentals to continue to acquire customers at a value that's right, and the [venture] money will eventually dry out." (<https://hbr.org/2020/03/reinventing-the-direct-to-consumer-business-model>).

As a result, even though the total volume of car sales has increased significantly over the last decade, the marketing cost per car has remained at the same level. The primary reason behind this stagnation is the lack of improvement in conversion rates, both in terms of converting leads into paying customers and leveraging success referrals from existing customers. Statistics indicate that conversion rate from lead generation to paying customer is less than 100 ppm (parts per million).



In practice, the customer acquisition cost for any new automotive OEM follows an *Exponential Function Curve* – $F_{cost} = e^x$ (x is the volume number of one car model that can be evolved as new year model or uplift etc.). This observation has also been

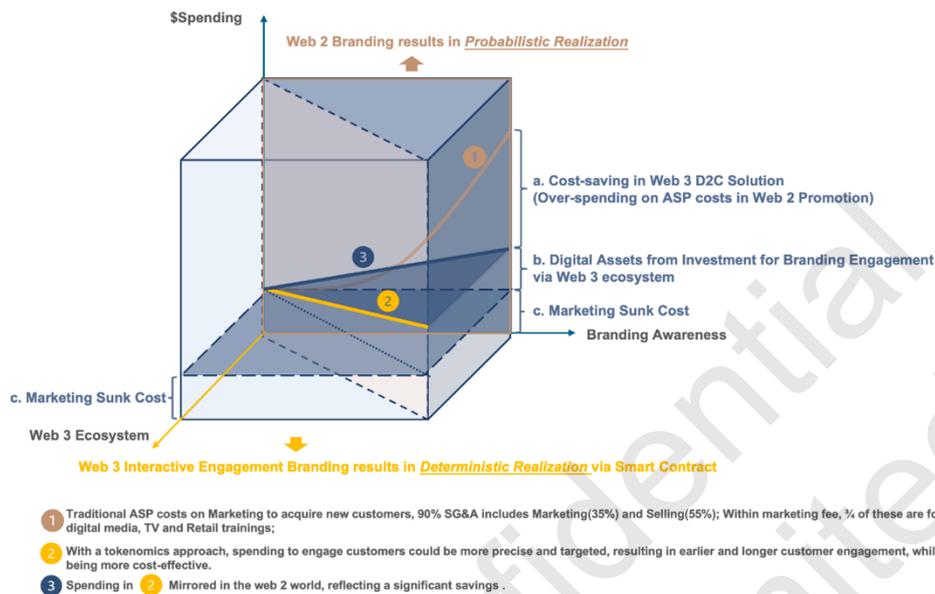
confirmed by independent sources, such as the PwC White-paper. (<https://www.pwccn.com/zh/press-room/press-releases/pr-280723.html>)

Resource Misallocation: Impact on Customer Experience and Referral Rates.

Misallocation of resources leads to poor customer experiences and low referral rates. The traditional setup of sales funnel management process often prioritizes customers ready-to-buy, neglecting highly interested who are not yet ready to place an order, sometimes purely due to the financial consideration. Consequently, despite significant

investments in brand awareness and lead generation, many potential customers remain unattended. Increased marketing spending raises customer expectations, widening the gap that service teams must bridge. In some extreme cases, service teams have to work harder to deliver not only the expectations set by marketing and sales, but also to find a way to ensure financial self-sustainability, for the sake of justifying their value proposition inside the organization. This often results in a perceived brand image or promise that does not necessarily translate into a positive customer experience.

In practice, few organizations successfully establish synergy between different functions to implement effective loyalty programs or integrated retention systems. This challenge is particularly pronounced in the automotive industry. Once a customer leaves the sales point with a new car, they are often left on their own, or at best, only engaged through after-sales services like regular maintenance or spare-parts services. This approach fails to capture the long-tail effect of a new customer promoting the brand. There is a missed opportunity to continuously interact with the customer and to collaborate with them as acquisition ambassadors for new customers, rewarding them for their efforts. According to insights provided by Sergey Nazarov, co-founder of the Chainlink, contemporary businesses are still struggling with *paper guarantees* and *no shared truth*, resulting in the *probabilistic realizations*. This situation necessitates a transformation to *deterministic realizations*, which can securely, reliably, and accurately execute off-chain services while demonstrating alignment with user-defined or user-approved parameters, by combining *definitive truth* with *cryptographic guarantees*. (Source: <https://blog.chain.link/what-is-cryptographic-truth>).



Optimizing Marketing Spend and Enhancing Customer Interaction with Web 3 Tokenomics. There exists a significant opportunity for cost saving in marketing expenditures aimed at branding awareness, promotions, and quality lead generation. Implementing Web 3 tokenomics solution can enable the combination of *definitive truth* with *cryptographic guarantees*.

The traditional automotive industry heavily relies on dealership networks for acquiring customers and providing services. However, customers' interactions and reward programs are often seen as liabilities rather than assets, as they are not recorded as accruals in the brand owner's books. Consequently, the customer journey throughout the product lifecycle is often subpar, presenting significant opportunities for improvement. Unfortunately, without *cryptographic guarantees* implemented in a **decentralized environment**, the customer experience remains a sequential process with no upfront commitments or integrated solutions free from timing constraints.

Particularly in the era of *electric vehicles* (EVs), traditional dealership networks face increasingly challenges in engaging customers. The existing business model is losing its cash-generating capacity and profitability, especially as car sales become less profitable and services generate minimal revenue until several years later. In contrast, dealerships selling *internal combustion engine* (ICE) cars can make up additional opportunity of cash generation, if not through selling, at least through follow-up maintenance services, highlighting the disparity that dealership for EVs selling might face bigger challenges. In this way, traditional servicing models contribute little to

creating value for brand in terms of customer engagement.

Why Traditional Loyalty Points (ie. Frequent Flyers Programs (FFPs)) Often Fails.

While customer loyalty / rewards programs in Web 2 world have introduced “x -to-earn” program; there has never been a reliable “fly-to-earn” program. This is because the calculation of points requires consistent engagement with the points system, loyalty points like FFPs are relics from the Web 2.0 era, with untapped potential waiting to be unlocked in the next horizon. On the flip side, airlines' liabilities associated with loyalty programs have surged since the pandemic. The top five airlines in the United States collectively owe frequent fliers \$27.5 billion worth of free air travel or other products and services that can be purchased with the mileage points earned through their frequent flyer programs, leaving a huge negative legacy:

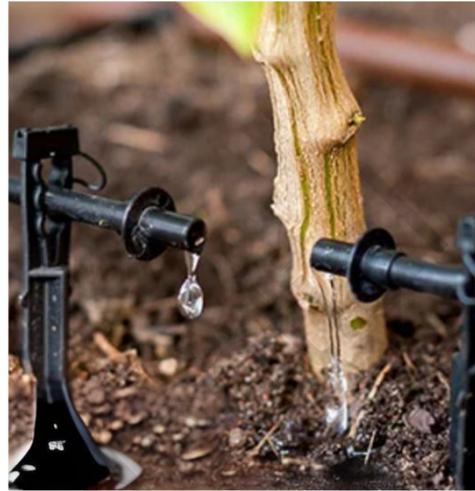
- *General Accepted Accounting Practices (GAAP)* require airlines to disclose on their balance sheets the amount of free travel they owe to the public but have not yet provided.
- Partly due to frequent fliers' ongoing accumulation of points, U.S. consumers earned \$12.6 billion worth of mileage points in 2019. Despite the challenges posed by the pandemic, members still earned \$6.8 billion worth of mileage points in 2020, primarily by making purchases using credit cards linked to their preferred airline's loyalty program.
- De-valuing the frequent flier miles could reduce airlines' financial liabilities, but it also poses the risk of alienating their most loyal customers.
- From operation and financial stands-points, loyalty points are always regarded inside an organization as typically *liabilities* rather than *assets*.
- Cases in automotive, like maintenance reward, car discounts, discount on auto parts, exclusive access to events, performances, and occasion; exclusive merchandise for members, also falls in the same trap, including *Clean Planet Car Wash Loyalty Program, Hyundai Rewards Program, FordPass Reward Program, Maruti Suzuki Rewards* etc.

Direct-to-Customer (D2C) Using Web 3 Tokenomics Solution. D2C is developed to engage customers directly at earlier stages, with the goal of generating deeper and longer interaction. Successful implementation would enable the loyalty points to be

transformed from liabilities to the asset for any organization that prepared to working with community under the new ecosystem. This aims to prevent unnecessary wastage of resources on irrelevant audiences and enhance the efficiency of communication or interaction. Above all, the goal is to encourage customers to initiate interactions, which can be incentivized or rewarded through a codified "X-to-earn" program using decentralized ledger technology. This approach ensures that each interaction between a customer (or potential customer) and the brand is recorded in a tamper-proof system. In summary, a tokenomics solution within the Web3 ecosystem addresses these pain points. Each interaction between the brand and the customer is treated as a transaction leading to the digit asset created in the real-world that impacts the balance sheet of the ecosystem. Therefore, both customers and brand owners are motivated to manage these digital assets carefully, monitoring and tracking related account records to manage their value more effectively.

The properly established D2C Web3 ecosystem possesses a distinctive advantage, where brands can cultivate individualized connections with their customers while amassing valuable data that would be unattainable through conventional channels. This increasingly resembles a two-way street, wherein community members and brands co-create new products and services, while collaborating in improving the result for all parties. According to DMA, customers are already open to a more active role in new product and service development with their favorite brands, with half in support (51%) and less than 15% disagreeing with this sentiment.

An analogy from the agriculture industry can illustrate the disparity in the efficiency and effectiveness of customer engagement between Web 2 and Web 3. For instance, to cultivate the same grain on identical land in China, a flood irrigation system would require approximately 2000 m³ of water, whereas drip irrigation would require only 250 m³, approximately one-eighth of the former.

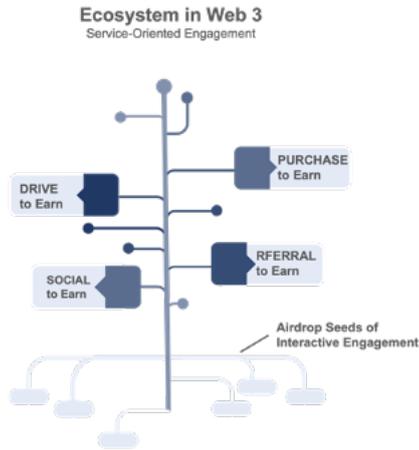


Flood Irrigation VS Drip Irrigation

Tokenomics, employing Web 3 methodology, introduces a disruptive solution for D2C interactions, enabling earlier, faster, and more profound engagement between brands and their customers, while offering additional values through immutability, security and privacy not always offered in traditional Web2 ecosystems.

Decentralized ledger technology, or blockchain solutions, can be utilized to establish a robust framework for interaction and engagement, akin to managing a digital asset.

1. Tokens are airdropped to audiences.
2. Reward those who engage socially to earn, enabling brands to identify their target audience more quickly and efficiently, even after sales cycle.
3. Offer incentives for those who engage in deeper interactions, with a commitment to providing substantial utility, in line with Sergey's concept of deterministic realization.
4. Community members earn rewards through referrals and other contribution benefit to the ecosystem, with positive discrimination to reward more those who bought products and services or have a high *Net Promoter Score* (NPS).



In this way, utilising a Web 3 tokenomics solution, the interaction between the brand and its customers in the real world can leverage the servicing function to enhance the customer journey in its early stages. This integration could redefine traditional marketing, sales, and services within the new ecosystem, thereby transforming customer loyalty points from liabilities to assets.

Potentially, this could enable a co-creation of product and services, transforming not only traditional acquisition, sales, and post-sales funnel, but also R&D efforts, manufacturing lines and much more. This approach can reduce marketing research in terms of costs and turnaround time from a few months to few days, increasing the agility and adaptability of the brand. Geno is pleased to announce its launching of the first use-case of W3D2C (Direct-to-Customer via Web3) in Malaysia this month, with an upcoming detailed white paper published soon.

Based on Geno's observations, the existing ecosystem is technically prepared to adopt new Web 3 solutions, necessitating a re-engineering of business processes and a realignment of business partnerships among all stakeholders. The primary challenges no longer lie in technological readiness or regulatory constraints but rather in the mindset required to embrace this new world with a fresh new vision of leadership.

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