Sales And Marketing

# Research: How Retailers Respond When Brands Start Selling Direct

by Michiel Van Crombrugge, Kathleen Cleeren and Els Breugelmans

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**Summary.** A new study analyzed the product orders placed by nearly 2,000 multi-brand retailers in the U.K. and France before and after a partner brand launched direct sales channels. On average, retailers decreased their orders by 19% and paid about 21% more after the entry compared to the period before the launch. But not all retailers responded the same way: the larger and more powerful the retailer, the less likely they were to retaliate against the brand. The researchers offer suggestions for brands looking to maintain relationships with both small and large retailers, noting that partnerships of all sizes can add up to significant portions of brand profits. **close**

In one of Nike's first earnings calls under its new leadership in

2024, CFO Matt Friend announced that the company would be re-engaging with retail partners to right some of their "missteps related to over-centering on direct." In 2017, Nike had drastically ramped up their investments in their own channels, including launching several web shops (such as Nike.com), mobile apps (like Nike SNKRS), and numerous physical stores. In response, many retailers pulled back from Nike and increasingly relied on other brands to stock their inventories and shelves. The *Financial Times* reported that the proportion of Foot Locker's inventory from Nike fell from 75% to 65% in the last three years. Nike realized their investment in direct channels was hurting their business, and they are trying to reverse course. But could all of this have been avoided?

In new research, published in the *Journal of Marketing* and the *Journal of the Academy of Marketing Science,* we studied how retailers respond when suppliers go direct. We found that, indeed, the introduction of direct channels leads to significant retailer pullback—but all retailers don't respond the same way. We examine our findings to offer recommendations for suppliers looking to maintain crucial retailer relationships while pursuing new channels.

## Direct Channels: A Double-edged Sword

Nike is not alone in its reliance on direct channels. As a countermeasure to the growing power of large aggregator platforms, such as Amazon in the U.S. or Tmall in China, many brands have increasingly developed direct channels, not only to benefit from the increased profit margins of direct sales, but also to establish a connection to customers and gain their attention, trust, and data.

These direct channels have expanded beyond web shops to other forms, such as subscription services, such as The North Face's XPLR Pass or Microsoft's Xbox Game Pass, and direct resale channels, such as Hugo Boss' Pre-Loved web shop or Dr. Martens' ReSouled program, to name a few. Direct channels like these have brought brands great success in capturing the eyeballs and revenue of consumers and have quickly become a key component of any brand's channel portfolio. Both Adidas and Nike, for instance, report that direct channels account for over 40% of total sales, equaling €9.5 billion and $21.5 billion respectively.

Yet the Nike example shows a major downside. Direct channels can strain relationships with existing multi-brand retail partners that historically played a crucial role in building and distributing these brands. When brands shift their focus to their own channels, retailers may feel sidelined or even directly undercut. For example, when Microsoft announced its Xbox platform would focus on its own subscription service over software sales, many independent retailers declared they would no longer stock Xbox products.

Because few brands can rely *only* on their own channels, such conflicts are troublesome. And since direct channels are here to stay, brands need a way forward to anticipate and prevent such adverse reactions from retail partners when they invest in their own direct channels. For brands, the crucial question is whether—and if so which and how—retail partners will respond.

## How Retailers Respond to Direct Channel Launches

In our new *Journal of Marketing* research, we analyzed the product orders placed by nearly 2,000 multi-brand retailers in the U.K. and France before and after a partner brand launched direct sales channels. We found that the launch led to immediate and substantial decreases in retailers' product orders. On average, retailers decreased their orders by 19%. Because they ordered fewer products, wholesale prices increased. On average, retailers paid about 21% more after the entry compared to the period before the launch.

For brands, a detachment of retail partners of this magnitude substantially endangers their brand value. Financially, we found that the increased wholesale price did not compensate for the loss in quantity ordered—the brand lost about 12% in revenue from orders that otherwise would have been placed if they had not launched their own channel (€785,000 in less than six months).

To make things worse, the detachment opens up retailer shelf space for other competitive brands. In a follow-up study published in the *Journal of the Academy of Marketing Science*, we focused on the entry of a direct sales channel of a different brand. We found that when this brand went direct, their retailers decreased the number of items from that brand that they stocked, and increased the prices for the items they continued to carry—making the brand less visible and financially attractive to customers.

## Not All Retailers Are Alike

Importantly, we found that not all retailers react the same way to direct channel introduction. Large, powerful retailers on which a brand depends because of their market share—especially when brand depends because of their market share—especially when they offer multiple categories of goods and brands—respond much less adversely to direct channels than smaller retailers. In a scenario-based survey experiment as part of our initial study, we found that this is because larger retailers have greater confidence that the brand will remain a reliable partner and continue to collaborate after the introduction of a direct channel.

The most adverse response to direct entry comes from smaller, specialist retailers. More than other retailers, direct channels threaten these retailers' core business. Our survey experiment reveals this evokes stronger feelings of conflict with the brand and makes them more likely to disengage and focus on other brands instead. Brands should not underestimate the impact of this independent, "mom-and-pop" segment. In all our studies, they made up over 30% of the brands' market shares.

## How Suppliers Can Strengthen Relationships With Their Retailers

These results should give brands pause when they consider investing in their own channels. However, our research offers a solution: targeted relationship-building actions with different retailer segments.

Different retailer types require different forms of support to remain engaged. Brands should take proactive steps to retain retailer relationships, especially with smaller independent retail specialists. While such incentives can be financial—such as offering lower wholesale prices—our research suggests it may be more effective to reinforce the retailers' role in the brand's channel portfolio.

Independent retailers want assurance that direct channels do not independent retailers want assurance that direct channels do not make them obsolete. Consumer electronic brands, such as Philips or Sonos, for instance, include visible store locators on their own web shops that direct customers to local and independent retailers. This reassures retailers that brands are not diverting all revenue to their own channels. While the practice may seem obvious, it is surprising how few brands mention their retail partners on their own channels. Other effective approaches may include offering exclusive product lines or in-store events to retailers to differentiate the retail channel better from the direct channels.

At the same time, the fact that large, powerful retailers react much less adversely to direct channels mostly stems from their trust that the brand will continue their support. Brands therefore should take note of the Nike case and avoid public statements that make retailers question that trust (such as claiming that “undifferentiated, mediocre retail won’t survive”, large or small).

Instead, brands should signal they want to maintain their strong ties to retailers. For instance, YETI—an outdoor recreation brand with a strong direct sales business— continues to actively support retailers by offering promotional assets and product training through a dedicated platform for their retail partners. Initiatives like that leave no room for doubt that the brand will continue to support their retailers.

## Not All Brands Are Alike

As we’ve seen, retailers can have different responses to direct channels. Similarly, not all suppliers will experience the same degree of retailer resistance. A limitation of our studies is that they each focus on one brand only. And although our results support a consistent pattern across studies, we must consider the support a consistent pattern across studies, we must consider the conditions that make some brands' direct channels more or less likely to solicit retailer backlash.

In our research, we argue that retailer response will be most severe for high-equity brands that are active in categories in which consumers tend to make only one or a very limited number of purchases. Such brands have the potential to draw considerable traffic away from retailers to their own channels and do so in categories where follow-up retailer sales are unlikely. Examples include Samsung, Bosch, Chanel, or even Tesla, who have all faced criticism from retail partners in the past.

In contrast, retailers are less likely to push back against direct channels of lower-equity brands in categories where customers tend to make repeated or complementary purchases. Such brands do not have the power to pull many consumers to their own channels, but if they do, this could trigger consumers to buy alternatively and/or subsequently in multi-brand retail. Such brands may include YETI (in outdoor recreation), Burt's Bees (in personal care), or HOKA (in sportswear). For example, a customer who first discovers a Burt's Bees product via the direct web shop may later choose to repurchase it as part of their routine shopping at local grocery or drug stores. Similarly, someone buying HOKA running shoes directly may still visit a specialty retailer later to pick up complementary gear like running shirts or socks.

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The abundance of brands' own direct channels makes clear that they are here to stay as brands continue to find new ways to interact directly with their customers. However, Nike's recent experience shows that even dominant brands can suffer when experience shows that even dominant brands can suffer when retail partnerships are neglected. Brands can avoid unintended retailer backlash by adopting a segmented, strategic approach that takes care of partners' different concerns. Brands that recognize and strategically address these concerns will be far better positioned to grow their own channels without jeopardizing their retail partnerships.

**Michiel Van Crombrugge** is Associate Professor of Market Insights and Innovation at the Erasmus School of Economics at Erasmus University Rotterdam. He researches strategic marketing issues surrounding new business models in multichannel retail and platform markets.

**Kathleen Cleeren** is Full Professor of Marketing at KU Leuven. Her research focuses on retailing and investigates the impact of important trends in retailing such as shrinkflation, product-harm crises, and conflict delistings.

**Els Breugelmans** is Full Professor of Marketing at KU Leuven. Her research focuses on (online) retail marketing and uses econometric models to investigate the effect of marketing aspects on purchase behavior and consumer reactions. She investigates aspects such as (online) grocery shopping, omnichannel retailing, and manufacturer-retailer relationships.

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