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Allbirds, Carvana, and other digital natives struggle amid economic uncertainty

Article

The trend: As more consumers reduce discretionary spending, digitally native direct-to-consumer (D2C) brands are shedding workers and growing their brick-and-mortar presences

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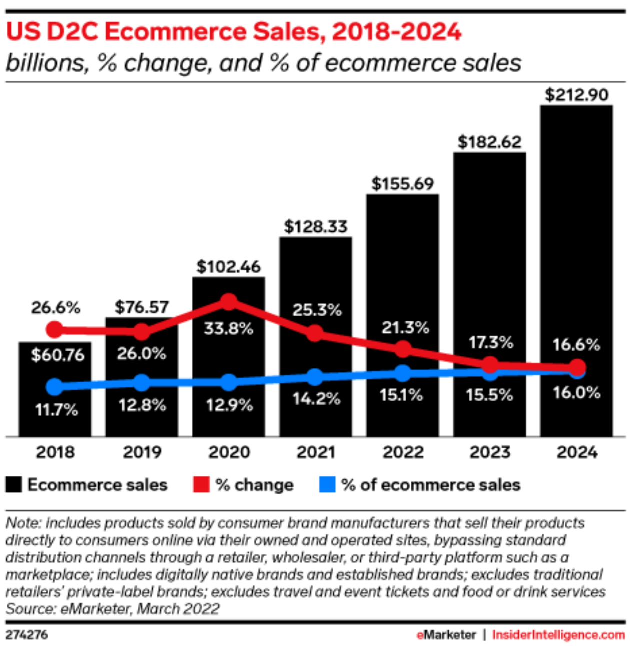
to keep their businesses viable amid economic volatility.

Losses mount: Even in the best of times, digitally native brands have struggled to turn quick growth into a sustainable business. For example, **Warby Parker** has consistently posted losses since its IPO in 2019—a troubling sign for a brand that helped popularize the D2C ecommerce model.

- It's not the only company struggling to turn a profit: **Allbirds lost $29.2 million in Q2, despite growing revenues by 15% year-over-year** (YoY), per its earnings statement.
- Despite being the [fastest-growing online retailer]() this year, **Carvana posted a $439 million loss in Q2** as higher used car prices and interest rates dampened consumers' desire to spend on big-ticket items.



Cost-cutting measures: While Carvana, Allbirds, and Warby Parker's status as publicly traded companies means they have easier access to capital than privately owned brands, they're feeling the pressure from investors to cut costs.

- **Carvana shed 12% of its workers in May, while Allbirds recently laid off 8% of its global workforce.**
- Warby Parker announced this week it would cut 63 corporate employees, while **Glossier**'s latest round of layoffs earlier this month affected roughly two dozen staff members.

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- In June, Carvana completed a sale-leaseback for a facility in Indiana, giving it a $30 million cash boost.
- Allbirds' efforts to trim its balance sheet include transitioning to an automated distribution center and dedicated returns processor, slowing hiring, and reducing its office footprint.

Brick-and-mortar wins out: At the same time, digitally native D2C companies are plowing money into growing their brick-and-mortar presences, either through dedicated stores or wholesale partnerships.

- Allbirds noted that its retail stores were the primary driver of US revenues during Q2. The company plans to open 16 to 17 new stores this year, and is focused on building out its wholesale business with retail partners including **Nordstrom**, **Shields**, and **Selfridges**.
- Beauty ecommerce pioneer Glossier moved away from the D2C-only model with a wholesale partnership with **Sephora**, while underwear company **Parade** is bringing its products to **Urban Outfitters** stores.

The big takeaway: The difficulty that digitally native brands face is that scaling a business's brick-and-mortar presence is an extremely expensive endeavor which may conflict with cost-cutting mandates.

- Allbirds' selling, general, and administration costs in the first half of 2022 totaled $80.5 million, or 57.1% of revenues, due mainly to costs related to store openings and operational expenses.
- At the same time, D2C brands have to look to brick-and-mortar to reduce customer acquisition costs and drive sales growth. Turning to wholesale might be a way to reduce overhead, but would come at the expense of profit margins.

Go further: *For more on D2C strategies, read our report here.*

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