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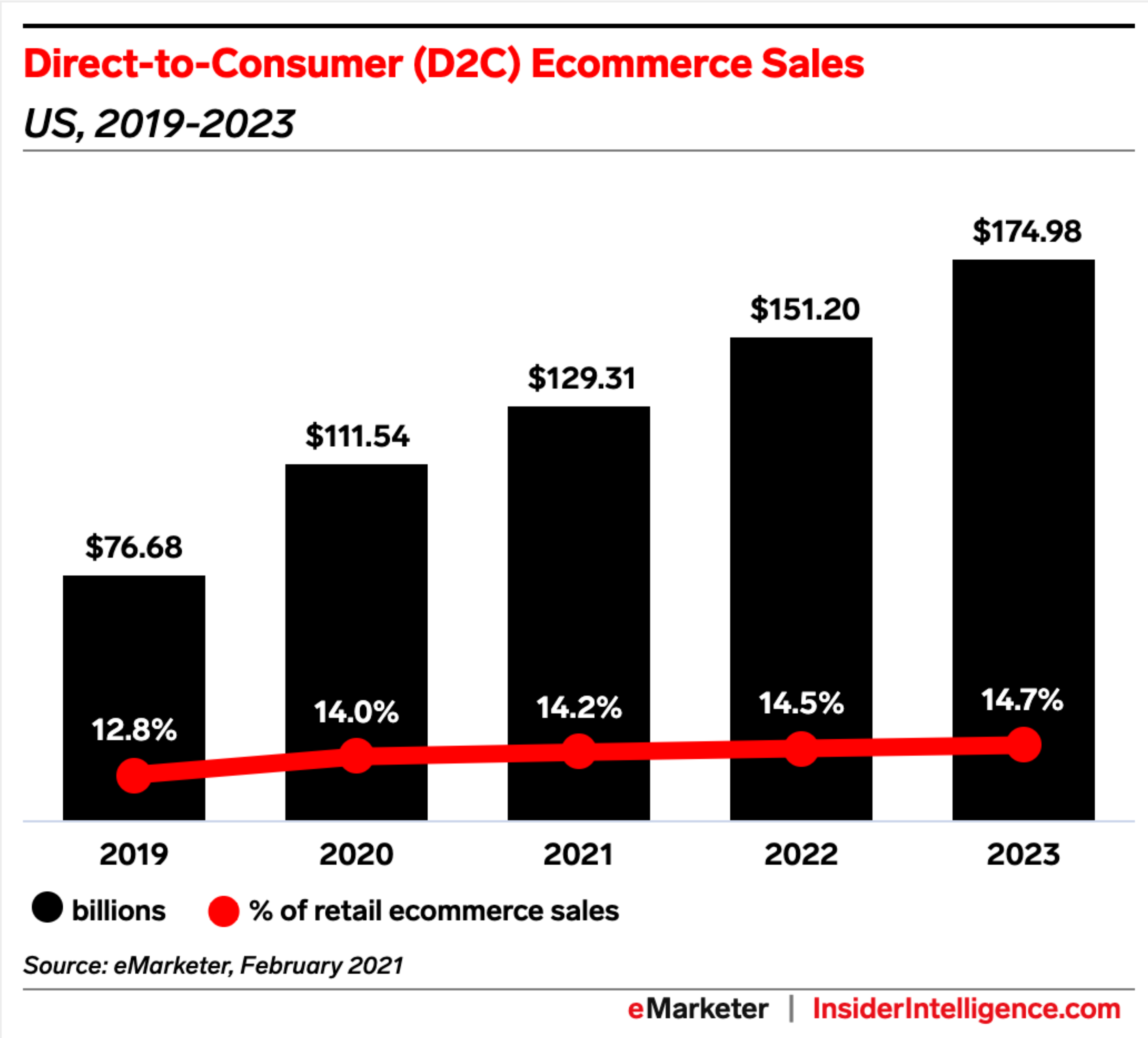
Why more brands should leverage a D2C model

Article

The direct-to-consumer (D2C) model has been making waves over the past few years, as a greater emphasis on owned and operated online channels has been placed. In 2020, this model became even more attractive as brands and retailers faced disrupted supply chains, delayed orders, and store closures.

US D2C ecommerce sales, including both digitally native and established brands, grew 45.5% last year—generating $111.54 billion and making up 14.0% of total retail ecommerce sales, per our estimates. We expect relatively steady growth each year through 2023, with D2C ecommerce sales reaching $174.98 billion at that time.



So, what's driving D2C's success? To put it simply: data and feedback.

"The D2C model gives brands the opportunity to collect first-party data on their customers," said Cindy Liu, eMarketer director of forecasting at Insider Intelligence. "And with this data, the possibilities are endless—brands can customize products and create new products, all with the customer in mind."

Data and analytics are crucial for all brands to not only better personalize shopping experiences, but also get a fuller picture of who their customers are. As brands vet their collected data, they can also make more informed decisions, especially in regard to next steps in expanding or improving operations.

Many D2C companies have already found this approach to be beneficial. For example, grooming supplies brand Harry's, which is digitally native, has created products by crowdsourcing information from its current shoppers. Meanwhile, more-established brand L'Oréal has leveraged D2C to personalize products through its Technology Incubator—an effort dedicated to developing innovative beauty tech and experiences.

It's important to note that data and analytics are just one component of D2C's success; brand identity is another.

"Brands leveraging a D2C model are able to control their own messaging and the way their products are presented," Liu said. "This in turn lets them own the entire customer relationship and increases the likelihood of customer retention."

Finally, brands leveraging a D2C model are working to improve margins. They're doing this by eliminating intermediaries, reducing distribution costs, and gaining greater control over their bottom line. Through wholesale, brands' sales are also contingent on the success of the retailer.

This is clearly evident in the work that Nike is doing, especially as the brand continues to shut down more and more wholesale partnerships.

"An increasing number of brands are finding that investing in their D2C models pays huge dividends," said Jeremy Goldman, eMarketer principal analyst at Insider Intelligence. "For one, it has the potential to be more profitable. It also promises to be a more consistent revenue stream than going through retailers that may be upended by the next pandemic-style black swan event. And finally, D2C models inherently lend themselves to knowing the customer the best, which makes it far easier to provide the superior customer experience that today's consumers demand."