

What's the next phase of D2C retail?

Article

The next phase of direct-to-consumer (D2C) retail won't be defined by a singular distribution strategy, but rather by the need for brands to make a real connection with customers.

Whether you want to call this new phase **C2C**, (connect-to-consumer, coined by Shimona Mehta, managing director, EMEA at Shopify) or **D2C 3.0** (as explained to Forbes by Bryan Mahoney, co-founder and CEO of Chord), the core of the strategy is the same: connect with the customer in the right place, at the right time, in the right way.

Here are four ways D2C brands can employ this strategy.

1. Emphasize physical retail

As consumers resume pre-pandemic behaviors, **in-store shopping is having a renaissance**.

And D2C brands have taken notice. **Warby Parker and Allbirds** invested heavily in their brick-and-mortar presence last year, a trend we predict other **brands will follow in 2023**.

Though they can't compete with traditional retailers' footprint, D2C brands have an advantage in their ability to disrupt.

D2C brands should apply the same principles they used to rock ecommerce to their brick-and-mortars by creating engaging, aesthetically pleasing spaces that leverage technology to make shopping more experiential and seamless.

By bringing a digitally native mindset to in-store experiences, D2C brands can bridge the gap between physical and digital in a way that other retailers have struggled to do.

For example, **D2C kitchenware brand Our Place** opened its first brick-and-mortar location last year, designed to be a place for "gathering and community." The store boasts a cafe and outdoor space, which will be used to host food-related events, book launches, and film screenings.

2. Partner with mature brands

D2C brands need help to reach a broader audience.

In 2022, Peloton and Rent the Runway announced partnerships with Amazon, while Allbirds developed wholesale relationships with retailers such as Dick's Sporting Goods-owned Public Lands and REI.

D2Cs can leverage the size of more mature retailers to increase brand awareness, attract new customers, and become even more accessible to current ones.

"The natural life cycle of D2C brands is to go straight to consumers to get off the ground, become wholesale brands in order to achieve scale, and then revert to D2C sales channels to the extent their brand equity allows," our analyst Andrew Lipsman wrote in our "**D2C Brands 2022**" report.

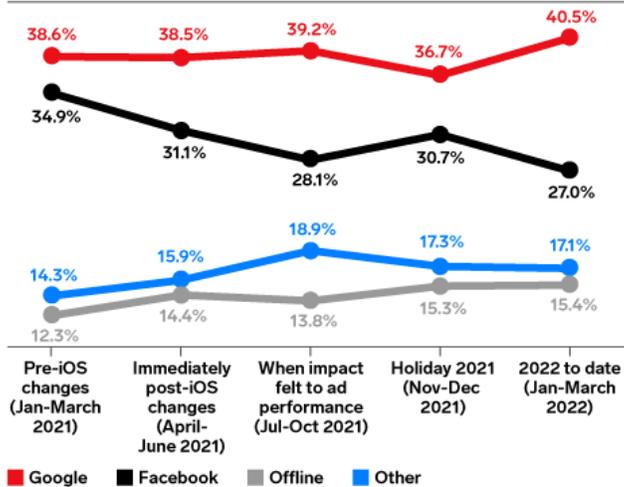
3. Shift digital ad spend

As a result of Apple's AppTrackingTransparency policy, a great deal of D2C brands moved digital ad spend away from Meta toward platforms like Google. But **Google may not be the ultimate winner of that battle.**

As search behaviors change, brands will shift their dollars away from Google to Amazon and TikTok, where consumers are increasingly beginning their searches.

US Direct-to-Consumer (D2C) Brands' Share of Ad Spending, Jan 2021-March 2022

% of total



Note: offline spend for March 2022 is underrepresented as linear TV and direct mail report spend on a delay of 1 week or more
Source: Rockerbox; Insider Intelligence calculations, April 11, 2022

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4. Leverage customer data

D2C brands also have an advantage over traditional retailers with their easy access to zero- and first-party data. As the sun sets on cookies and a federal privacy law looms, customer data will become invaluable to brand marketers.

D2C brands can use their strong customer relationships to collect consumer data, which can then be leveraged to create a more **personalized customer experience** and, ultimately, increase customer loyalty (**no easy feat these days**).

The bottom line: Last year, **D2C brands including Warby Parker, Allbirds, and Carvana struggled** as consumers battled inflation and reduced discretionary spending.

As these challenges cross into 2023, it's becoming clear that D2Cs can't rely on the same old tricks anymore. D2C 3.0 requires a new playbook, one where the customer is at the center of everything from brand messaging to physical retail locations.

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