JUN 28

Sara Lebow, and Suzy Davidkhanian

Reimagining Retail: Why established brands are dominating D2C and which digital natives are primed for success

Audio

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On today's podcast episode, in our "Retail Me This, Retail Me That" segment, we discuss what established brands have to gain by going D2C, the ways digitally native brands sell in brick-and-mortar stores, and how brands are maintaining a digitally native “identity” for marketing purposes while also going wholesale. Then, for "Pop-Up Rankings," we rank the the digital natives that are primed for success and the ones that need to up their game. Join our analyst Sara Lebow as she hosts vice president of content Suzy Davidkhanian and president of SageBerry Consulting and author of "Remarkable Retail" Steve Dennis.

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Episode Transcript:

Sara Lebow:

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Hello, listeners. Today is Wednesday, August 23rd. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode is direct to consumer eCommerce. Is it a business model or is it a marketing strategy? Let's meet today's guests. Joining me for today's episode we have back on the pod, VP of content for our retail desk, Suzy Davidkhanian. Welcome back, Suzy.

Suzy Davidkhanian:

Thanks for having me, Sara.

Sara Lebow:

And also joining us, we have a special guest today, president of SageBerry Consulting and author of Remarkable Retail, Steve Dennis. Welcome, Steve.

Steve Dennis:

Thanks. Glad to be back.

Sara Lebow:

Thanks for being here. Okay, let's get started with our Did You Know segment Free Sample, where I share a fun fact, tidbit or question. Today's question, it's a quiz. Four of the following D2C brand names are real and one is a name that I made up. Which of the following five D2C brand names is not a real D2C? We have Beltology, SprezzaBox, BlackMilk, Ministry of Supply, and Nova Crest. Steve, Suzy, which of these is not a real D2C?

Steve Dennis:

I'm going to go with Nova Crest.

Sara Lebow:

Suzy, what's your guess?

Suzy Davidkhanian:

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I think it's number two, whatever that name was.

Sara Lebow:

SprezzaBox?

Suzy Davidkhanian:

Yeah.

Sara Lebow:

It's not SprezzaBox. SprezzaBox is a subscription service that's catered toward the modern man.

Suzy Davidkhanian:

Steve knew that one.

Sara Lebow:

Steve got it. It's Nova Crest. I made up Nova Crest.

Suzy Davidkhanian:

I'm so sad. I don't like going into episodes losing.

Steve Dennis:

You're way behind now, Suzy.

Suzy Davidkhanian:

Oh my God.

Sara Lebow:

You're way behind. That was believable, though, right? I'm upset that Steve got it.

Suzy Davidkhanian:

It was so believable.

Sara Lebow:

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I thought I did a good job.

Suzy Davidkhanian:

I thought that was like a tooth... all these toothpaste type things are coming up, so that fit right in for me.

Sara Lebow:

I had trouble making up a name because I kept making up names and then Googling and they were real companies.

Suzy Davidkhanian:

God, that's awesome.

Sara Lebow:

Nova Crest was the first one that wasn't a real company. Okay. Now that we've established Steve's expertise in the area, and Suzy's as well, even though she didn't know about SprezzaBox.

Suzy Davidkhanian:

Luckily I'm not the target market, so I feel better about that.

Sara Lebow:

Most of those were actually menswear brands of some sort.

Suzy Davidkhanian:

Steve, she wanted you to win.

Steve Dennis:

I think I had a little bit of an advantage. Yeah.

Sara Lebow:

All right, now it's time for our next segment, Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is direct to consumer commerce. Established brands are dominating D2C. This year, established brands like Nike will account for over $130 billion

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in D2C eCommerce sales, while digitally native brands will make up just $30 billion, so a $100 billion difference there. Starting off with this distinction we have between established brands and digitally native vertical brands like Warby Parker, Casper and Peloton, Steve, can you outline this distinction for us?

Steve Dennis:

Well, the distinction is that these newer brands were basically birthed in a period where digital was established. So they got to start with the latest technology. They got to start really building their organization, infrastructure and culture for a digital age. Whereas a lot of the established brands would have legacy systems and whatever relationships and whatever real estate they built over a period of time before this digital age. So I think maybe we'll get into this. I think it's a little bit of a distinction without a difference in some respects, but in theory they have a big advantage, starting with a kind of clean sheet being built for an era of modern retail.

Sara Lebow:

Yeah. Sort of an arbitrary line we're drawing between the Warby Parkers and Caspers of the world and the Nikes of the world that have been around for longer.

Suzy Davidkhanian:

Though I kind of don't know if it's arbitrary in that there was an original digitally native group of brands that had decided that cutting out the middleman would make their margins a little bit stronger and that they could get access to the consumer faster. And with all of the different ways that you could sell to consumers directly that were a little bit cheaper and more digital, I think they really did believe that this was something. And I mean, the first digital brands probably started in the early 2000s, right? It's not new.

It's just that over time we realized that there actually have been tons of digitally native brands that have needed to go into the wholesale and/or doors component to reach a broader audience. And all of the what we used to call vertically integrated brands are technically direct to consumer brands, just the channels are a little bit different. And here I'm thinking about a Ann Taylor or a Gap. I mean, they were truly the original direct to consumer brands.

Steve Dennis:

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What I meant by arbitrary is... Because what you say is correct. What I meant by arbitrary is that the inherence... And we'll probably talk about whether direct to consumer is a business model or a distribution strategy or a marketing strategy or whatever. But Land's End, J.Crew, they're all vertically integrated brands that need to build a consumer, need to have a value proposition, need to figure out how to make money. So in concept, from a business strategy standpoint, I don't think there's an inherent difference. It's just when they started, they didn't have to deal with some of the legacy baggage and they could in theory build something from scratch that would be more enduring.

It's turning out that that's not so much the case because I think some of the underlying premises behind the investment strategy for digitally native vertical brands have turned out to be flawed. But that's really what I meant. But yes, there's some important differences in terms of how they went about it and what they believed was the opportunity. But I think we've seen that that's not, like I said, it's not as clear cut today as it seemed to be back in the 2010, 2012 time period.

Suzy Davidkhanian:

Well, and I guess it's sort of now there's so many more brands and it's so easy to sell, even just with one product. Not maybe be successful, but to sell your one hit wonder through Facebook or other social commerce platforms or directly yourself, or join an incubator that's held by a retailer and maybe sell to them. So there's so many different ways that it has changed the dynamics.

But at the end of the day, no matter when your retailer or your brand was founded, the premise is you want to get your items into the customer's hand when they want it and however they want to shop for it. And so I think that was the lens that the digitally native folks lost, in that you need to be in stores in some way, shape or form because that's still 85% of sales. And for the legacy brands, they had a tough time getting online and that was another thing that they needed to worry about.

Steve Dennis:

Well, I was going to say, yes and no. I think sometimes it's lost that... Plenty of legacy brands, actually... Like for example, I worked at Neiman Marcus many years ago. In 2005, our eCommerce business, non-inflation adjusted, was bigger than Warby Parker is today. There's plenty of legacy brands that had very sizable eCommerce businesses 10, 15 years ago. But I

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think some of the issues around their real estate strategies, some of their issues about attracting younger customers are bigger.

But what I would say about the digitally native vertical brands, fundamentally they started with this idea that you could build big, powerful brands online only. 98% of the time that's not the case. They believed that some of the underlying economics that got them to maybe the first 20, 30, 40, $50 million would continue into a period of time where they got to be larger. That's proven not to be the case. I mean, there were a lot of fundamental flaws, I think, that went into the investment premise that's just not panned out that way, for the most part. There were a few exceptions.

Suzy Davidkhanian:

Right. And I think, to your point, the legacy brand, I mean, Macy's too -- everybody knows I love talking about Macy's -- Macy's too had an online business for an eternity when I joined in 2006 that it was already there. But to your point, there were different systems. It was two completely different teams operating basically as two completely different businesses. Whereas all the newer brands, and now we're focusing on the digitally native brands, had the opportunity to learn from what some of these more legacy brands were doing wrong and try and figure it out and make it easier, and could use some of these platforms like Shopify or even marketplaces to try and... Especially in this instance, the Shopifys of the world, that could help you with plug and play so you could put up your website more quickly and not have to worry about some of the operational things. Because it's true, there are so many costs to a digitally native brand that I think was lost on people. Everybody just focused on customer acquisition and first party data and didn't think through all of the other logistical components.

Steve Dennis:

Well, I was just going to say, no, I think you make an important point about... I always talk about too many legacy retailers get caught up in this channel conflict and silos. And it is a huge advantage to start and build your system with the customer as the channel, not really care about where you sell it. Have one database, have this very integrated view, and have the latest and greatest technology and not have to deal with all the unwinding that it sounds like, Suzy, you've had to deal with this too.

I dealt with it within a couple of companies I worked at and then in consulting, where so much time is spent about breaking down those silos and trying to figure out how to invest and

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getting confused about sunk costs. And so yeah, starting with a relatively clean sheet and being able to build that from scratch, in theory gives them quite a lot of advantages compared to some legacy players.

Sara Lebow:

What we see with D2C brands being in Targets and Walmarts isn't totally new. You brought in the Land's End example. But Land's End sold in Sears for years. So I mean, you have vertically integrated brands already working with other retailers. I want to talk about that a little more, the selling in a Target. I mean, you can buy quip toothbrushes in a Target, you can buy ThirdLove bras on Amazon. Why are the digitally native brands going wholesale? What is the case with the economics that you can't get past that 30, 50 million mark totally D2C?

Steve Dennis:

Well, I think, and it's because it's such a big industry with a lot of different players, it's kind of hard to make a sweeping statement. But what I would say we've generally seen in the evolution of these digitally native vertical brands is their first phase of growth basically comes from finding the best fit, or what I call the obsessive core customer. And they're able to find those customers fairly quickly, number one, because those customers are very focused on buying online, they're engaged in social media. And so you acquire that first group of customers fairly quickly.

Then you get to the stage where you have to go find customers. And one of the problems, I use Bonobos as an example. It's kind of a big flame out, but a company that had a lot of potential, or got a lot of investment for many years. What they discovered several years in is that when they started to try to go find customers, well, a lot of the customers they needed to steal away were coming from competitors like Nordstrom. Well, it turns out that if customers are shopping at Nordstrom, they probably like Nordstrom pretty well. Maybe there's not that much of an innovation, but minimally you have to start competing for keywords against these very sophisticated players.

So cost of customer acquisition went up a lot. So the challenge from for any brand, not just... That's why I say, I mean, it's a little bit of a false distinction. Any new brand, digitally native or otherwise, has to build awareness, has to build preference, has to build loyalty, advocacy, remarkability, et cetera. So the question is how much money do you have to spend to get in front of customers? So done right, what wholesale offers is you're getting your product, with

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the right partner, in front of customers that should already be interested in what you're doing. And you're not having to pay marketing costs for that.

Now, you're giving that up -- I'm sure we'll get into this -- but you're giving that up in gross margin, which is one of the things that the MPBs didn't understand about the fundamental economics of retail in many cases. But the motivation is you can get a lot of reach and a lot of awareness pretty quickly instead of trying to discount your way and massively spend on marketing to get customers, many of whom have turned out not to be that loyal, because the more you promote to them and discount the less loyal they're likely to be.

So almost all these guys hit a wall in terms of the customer lifetime value economics from trying to be online-only digitally native vertical brand. Now then that gets into their brick and mortar strategy, which is their own stores. But wholesale really gives you that reach, gets you in front of the right customers, hopefully, if it's the right partner. And yeah, you might have a 45 or 50% margin instead of 70, 80%, but you're not having to spend all this other money and take as much time to build a brand.

Sara Lebow:

The issue with the innovation of the digitally native brands, the excitement surrounding Dollar Shave Club in 2012, is that there's nothing stopping the Nikes of the world that already have that loyal customer base from following the same tactics, but using all of the cash that they already have, all the loyalty they already have, and following that same strategy.

Suzy Davidkhanian:

Well, I think Nike is an interesting one, because Nike has done some back and forth on how big should their wholesale business be and how many partners should they be relying on? And so part of what the margin conversation is, it should also just be net margin. Once all the costs are included, where do you net out as a brand when you use a wholesale partner? Because they take on a lot of the costs, not only just in terms of customer marketing, but also delivery and getting the items from your warehouse into their stores or onto their website. They also help you get rid of inventory, so you're not stuck with all that inventory and you don't have to discount it in your own way. I mean, there is co-op advertising costs and co-op marketing costs that help a little bit with that liability that the wholesaler is holding onto. But it's still much easier to go at it with a partner and to distribute the costs than it is to go at it alone.

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But like Steve said, the most important part is to think about who is your customer and what is the right partnership? And think about it from the KPIs of what are you trying to achieve by going wholesale? Is it to tap into a whole new customer base? Is it to try and have more store alignment if you're doing pop-up stores versus actually having shop in shop? I mean, there's so many different tactics. You just have to do what's right for your brand.

Steve Dennis:

I know maybe this is controversial, but I think one of the things that really affected both the venture capitalists and the leaders of the digitally native vertical brand was arrogance and lack of awareness. I think there was this belief, which is attractive at one level, if you could build an online-only brand and capture 70% margin and avoid a lot of the hassles and the costs that Suzy alluded to, that would be a fantastic business. But it's also probably a $25 million business or a $50 million business. You could do that. But if you've raised, as some of these companies have, 10, 20, $100 million dollars, you're shooting for the stars, you've got to be billion dollar plus businesses. And it's just very hard to find a category where you can build that sort of business and not have retail stores and not have wholesale partnerships.

And the economics of that are very different and you really have to understand it. So most of these brands are now playing catch up because they were... I mean, I used to have conversations with people about why they needed stores and why they should look at wholesale. And basically, I was told by a bunch of them, "Yeah, old man, whatever. You don't understand modern retail and how this is evolving." And I'm like, "Well, not to be snippy about it. Come back to me in a few years and see how this goes." Right? And it's not because I had some deep insight about it. It was because, like a lot of other people that have been in it, we understood what it was going to take to get to certain levels. So I think a lot of these brands have encountered those growing pains, but there are some immutable forces in retail, like returns are incredibly high online only.

One of the ways to reduce returns is to have physical stores. Cost of customer acquisition, cost of reactivation, incredibly high online, unless you've got the absolute best fit customers. So you're not going to get to be a billion-dollar business by just bulldozing your way through digital marketing. So there's just a lot of underlying economics that I think have now become really apparent. But really none of these issues are any different than all the mail order catalog companies faced when they were trying to run the stores.

Sara Lebow:

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Like Land's End.

Steve Dennis:

Yeah, I mean it's not... These are [inaudible].

Suzy Davidkhanian:

Yeah, or as seen on TV, as seen on TV. The thing I would add to that, which I've been working for a very, very, very long time in retail, originally there was a lot of tension in wholesale. If you're a Nike, you thought, what I sell at Macy's or at Dick's should be completely different than what I sell in my store. My store is at the mall where these brands are at the... Macy's is at the mall. So it's different customers. I think they just didn't understand that the customer doesn't actually care where they're buying it from.

They want to have the assortment that they're looking for wherever they're looking. And that tension also didn't help with this, is it a business model or is it a strategy? Because we were pitting these two groups of people against one another, whereas in fact, actually, it shouldn't be treated like that. The Nordstroms of the world, it's a brand extension. And so understanding who's shopping there and giving them what they need, even if it feels like it's in competition with what you would be selling at your own store, should be a moot point now.

Sara Lebow:

Yeah, it's definitely one thing to build an exciting brand. It's another thing to build a lasting brand.

Steve Dennis:

Right.

Sara Lebow:

All right, that's all we have time for in the first half so let's keep moving. Now it's time for pop-up rankings, where we take a look at a specific example and we rank them. Today, Steve and Suzy will look at which digitally natives are primed for success, and each choose one brand they expect will continue to succeed and one that may need to up their game. Let's start with our successful brands. Steve, why don't you kick us off with one brand you think is going to see success in the next few years?

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Steve Dennis:

Well, one of my favorite brands is the... Well, they started as a sexual wellness brand called Hims. They're now branching out into other forms of health and wellness. They're a brand that is doing several things really well. First of all, it's much more differentiated, I think, in terms of a new business model. Not that it's impossible to copy, but they really found a niche by selling products online, doing medical consultations for things that could be embarrassing, like erectile dysfunction and hair loss and so forth. But they've also understood the power of the direct to consumer model. One of the things that's really helpful is if you have to spend a fair amount of money to acquire the customer, that you have a good model of continuing revenue streams. And so by locking in a prescription-type product into a subscription, you've got this lock-in feature that you don't necessarily have to keep promoting to get the customer to spend.

The second thing is very high gross margins. I think their margins are like 82, 83%, which gives you a lot of room for profitability. And then the other thing is, not to get into the weeds too much, but this is an issue for many direct-to-consumer brands, particularly if they're high returns, is they have tiny little packages. So the cost of shipping is very low and returns are very low. So the order of profitability compared to lots of other people in direct-to-consumer is much, much higher. So I think they have really orchestrated their model, found a space that's really distinctive, and they're building and they've got great revenue growth and I think the potential to get into a lot of other related product lines for women and more things for men.

Sara Lebow:

Yeah. The cost of shipping is low. The benefit to the consumer is huge. I mean, not having to wait in that prescription line at the pharmacy, monthly, that's a huge benefit. Suzy, do you have another example of a brand you think will continue to succeed in the D2C space?

Suzy Davidkhanian:

I do, and I picked one that is pretty obvious, but I picked it because it's obvious, but I don't think we give them enough credit. So Warby Parker is one of the older ones. It's a dinosaur if you think about it. It's from 2010. They are very successful at what they're doing. They are starting to make money. Their last quarterly call, they were talking about their adjusted earnings. It doubled from this quarter to last year, same quarter, which is a good sign, albeit tiny, very, very small, but at least they're moving in the right direction. But I think what they did

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really well was they understood that there was a problem and that they needed to figure out how to solve for it. The sunglass and regular glasses is a very specific channel. You need to go see a doctor or an optometrist. You go and you try glasses. The markup there is super high, so they wanted to try and help people save money.

They then realized that even though they cut themselves out of the middleman and go direct to consumer, that there were still some obstacles. So they used a lot of data to understand how to refine their business model. So they came up with innovative, at the time, things. We didn't have AR/VR back then. But they have moved into that direction. But so ask for three glasses, we'll send them to you. Pick one, send us back the other ones. They really thought through how to remove all the different friction points in this particular area and solve for it in an easy way, using data. And by the way, they also use data, because now we all know they have over 200 stores. They use data to decide where to put their stores, and that was aligned with where they were doing their most shipping.

Because that makes sense, too. Why go in a random place when you already have a built-in market if you know where you're shipping to? And I think the last thing I would say on this is they are into adjacent businesses, but that are not away from their core. There are a lot of brands that move out of their core senses and try and do other things to have extra revenue streams. Warby Parker is not one of them. They went into sunglasses, they did contact lenses and then into optometry all within that same industry.

Sara Lebow:

Yeah, I think it's interesting that you guys both picked businesses that are in or adjacent to the medical space. Because when you're 18 to 34, prime for shopping at a D2C, what's the most difficult thing to figure out as you're becoming an adult? It's insurance. It's medical things. It's something that you're looking for that subway ad. I'm obviously very New York focused in my framing, but you're looking at that subway ad that says, "You don't have to call your insurance provider and ask how you get pills or how you get contact lenses for several hours. Come to us."

Suzy Davidkhanian:

Right. Solutions-oriented is always a big win.

Steve Dennis:

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The one thing I think that's also impressive about Warby Parker is just from a branding perspective, I think the best brands really create a sense of affiliation. People like us do things like this. Who's really excited, what sort of person is a LensCrafter or a Pearl Vision? I think when you think about Warby Parker, it's a little bit -- I mean, I'm probably stretching the analogy a little bit much -- but it's a little bit like Apple. It's a cool brand. They've reinvigorated a very boring space.

And so I think it's easy in terms of creating loyalty and remarkability, it's a lot easier for customers to feel excited and want to talk about shopping at Warby Parker. Do people talk about LensCrafter or Pearl Vision or a lot of these other optical shops? No. So I think what they've done from a branding perspective, in addition to the things that Suzy pointed out, is really powerful. Because people buy the story before they buy the product. That's the bottom line for the best brands.

Suzy Davidkhanian:

And even their stores, the way that they've designed their store, every store is different. It's unique to that location. They're really trying to be authentic. So they've definitely leaned heavily into marketing, which is maybe why their net earnings are not that high yet. But there's a lot of room for growth there.

Sara Lebow:

Well, the only reason I can see both of you right now is because of my Warby Parker glasses, so can't argue with that. What about two brands that need to up their game? Steve, why don't you give us the first brand that could use some work?

Steve Dennis:

Oh, well, unfortunately, there's quite a few to choose from, but the one I would pick because I think it makes a bunch of different points, is Allbirds, which may go down as the WeWork of retail. I think there are a lot of issues here. Number one, they started to talk about being a lifestyle brand when they were a trendy shoe brand. And it's great to aspire to be the Ralph Lauren of footwear or whatever, but they hadn't built anything close to the foundation to think about their business that way. But that led them to invest way ahead of where the business was. They started opening stores in favor of wholesale, which has turned out to be a train wreck. They also -- and this is, I guess, a hard thing about any kind of fashion brand, is

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you run the risk. Every conference I went to five years ago, all the tech bros were wearing Allbirds.

Now none of them are. They're all wearing On running, which, by the way is now 20 times the market cap of Allbirds. So I think they just got really too far ahead of things. Also made some executional mistakes in terms of product line extensions. Too much inventory. It's just about everything that could go wrong has gone wrong. So now they're in retrenchment mode and favoring wholesale over brick and mortar, but I don't know that their wholesale product is all that appealing to go to the level that they originally built the business for. So I think this is a very weak brand at this point.

Sara Lebow:

Yeah, I mean, it's a wool walking shoe. It's not a running shoe. It's not really a dress shoe. So it was really cool when it started and it phased out, I think fizzled out pretty quickly. Suzy, what's another brand that you think could up its game?

Suzy Davidkhanian:

I picked Glossier, which is also an older brand, it's from 2014. And I think they weren't successful for the exact opposite reasons. And I think there is a lot of potential up and coming, but they had this idea around building beauty in a community-oriented way. They had very, very low assortment. They were counting on some big winners, and that was it. We were talking about the other brands that are successful. They didn't have this authentic, necessarily, way of cutting through the clutter. Beauty should be recession proof. We know it is. And their price points were not super high, but they were having a tough time. During the pandemic, they had an even tougher time. They're not a drugstore brand, but they're not a prestige brand. So they had a tough time articulating who they are and what they stand for.

And then I think they just had a few bad runs. They had a girl boss boss/creator/founder, who was no longer matching that sort of description. They were being faulted for not being sustainable. They didn't really have enough newness. It was one thing after the other. They do have a new CEO who I think is going to do some very interesting things coming from a legacy brand. She's already worked her way through figuring out partnerships so they're going wholesale, something they didn't want to do before. So they're going through Sephora. They are rethinking about their stores.

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Originally they had three or four stores that were really not at all experiential in any way, they were just tactile. You went and tried the four products and you moved on. These ones are set to be much more immersive, much more current. And so I think there's some hope, but I think they've got a really long way to go. They were originally valued at... In 2021, I should say, they were valued at 1.8 billion after having been in business for a very long time. Whereas Fenty, recently, their valuation was 2.8 billion and a much shorter runway. So Glossier has got a long way to go.

Sara Lebow:

This surprised me. I'm a Glossier consumer. They just opened a new brick and mortar in Williamsburg, and I think of their stores as being really unique. You try the product, you talk to someone who's in this pink jumpsuit, and then through some magical conveyor belt on the backend, you get your product as you're leaving. That said, I don't think I've been in a Glossier store since before the pandemic, and I'm definitely their key age range and geography. So I'm definitely not indicative of the average makeup consumer.

Steve Dennis:

Well, that gets to one other point I might make, which is one of the things I've seen --and I guess as a New Yorker who has been out of New York for many, many years, I can make this comment -- is there's a lot of hype, I think, that it built around some of these brands early on, that's mostly started by Wharton and Harvard Business School grads. In New York, mostly. Open their first few stores in Soho or Williamsburg or Melrose Ave, Congress Avenue, what I call the D2C ghettos. But there's six or seven locations that every DNVB has opened a store in pretty much. But just because you're successful in ground zero of cool online people doesn't mean you can get to 100 stores, much less 800 stores that Casper [inaudible]. So I think you have to be really careful to understand who your customer is and how well that's going to translate.

That's an issue in going into wholesale as well, because plenty of these brands, just because they're cool and they've done $50 million and have so many Instagram followers or TikTok followers or whatever, doesn't mean that that is going to work in every Target door or every Macy's door or every Nordstrom door. Again, I hate to be a broken record on this, but it's part of what I'm focusing on in my next book, which is transformational leadership. And one of the things I've seen in my research is just this arrogance and ego that gets in the way of clear

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view of what the business needs to do next. But I think it's understandable when you're young, you got venture capitalists throwing money at you.

Now the venture capitalists aren't throwing money at you. Now Wall Street is saying, "Well, that's great that you lost money for seven or eight years, but show us a glide path to profitability." So there's a real awakening and wake up call, I think, reality check for many of these brands. And whether they'll be able to make that transition, that remains to be seen with many of them. I hope they do. I don't wish ill will on any of them. It's just they've gotten themselves into some problems that unfortunately are going to be hard to fix and could have been avoided in many cases.

Suzy Davidkhanian:

Well, and what I would add to that, retail started more as an art. And over time it has turned into an art plus science, and data matters, right? So to Steve's point, you can't let your ego get in the way and you can't think that just because you're cool in one market, that's going to translate. So using data, doing focus groups, using your own customer data will really help you scale in the right way and find the pockets where you can be successful. And maybe you're not going to be the next Fenty, and that's okay too. You just need to level set and understand when you're going out to get money.

Sara Lebow:

And you're probably not going to be the next Fenty because then you'd have to find the next Rihanna. Let that be a challenge.

Steve Dennis:

That's like my strategy for making my book successful. Step one, get on Oprah.

Sara Lebow:

I think that the transformational leadership book should just lead with, "Hire Rihanna."

Steve Dennis:

Exactly. How hard could that be?

Sara Lebow:

All right. Well, that is all we have time for today. So thank you, Suzy, for being here.

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Suzy Davidkhanian:

Thanks for having me. I love talking about this topic so it was really fun.

Sara Lebow:

And thank you so much, Steve, for taking time to join us today.

Steve Dennis:

Of course. It's a great time.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts, and follow us on Instagram at Behind The Numbers_podcast. Thank you, listeners, and to Victoria who edits the podcast when she's not going D2C, doing stuff with Chester, her dog. Did that one work? I don't think it did. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast. And tomorrow, join Marcus for another episode of The Behind the Numbers Daily.

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