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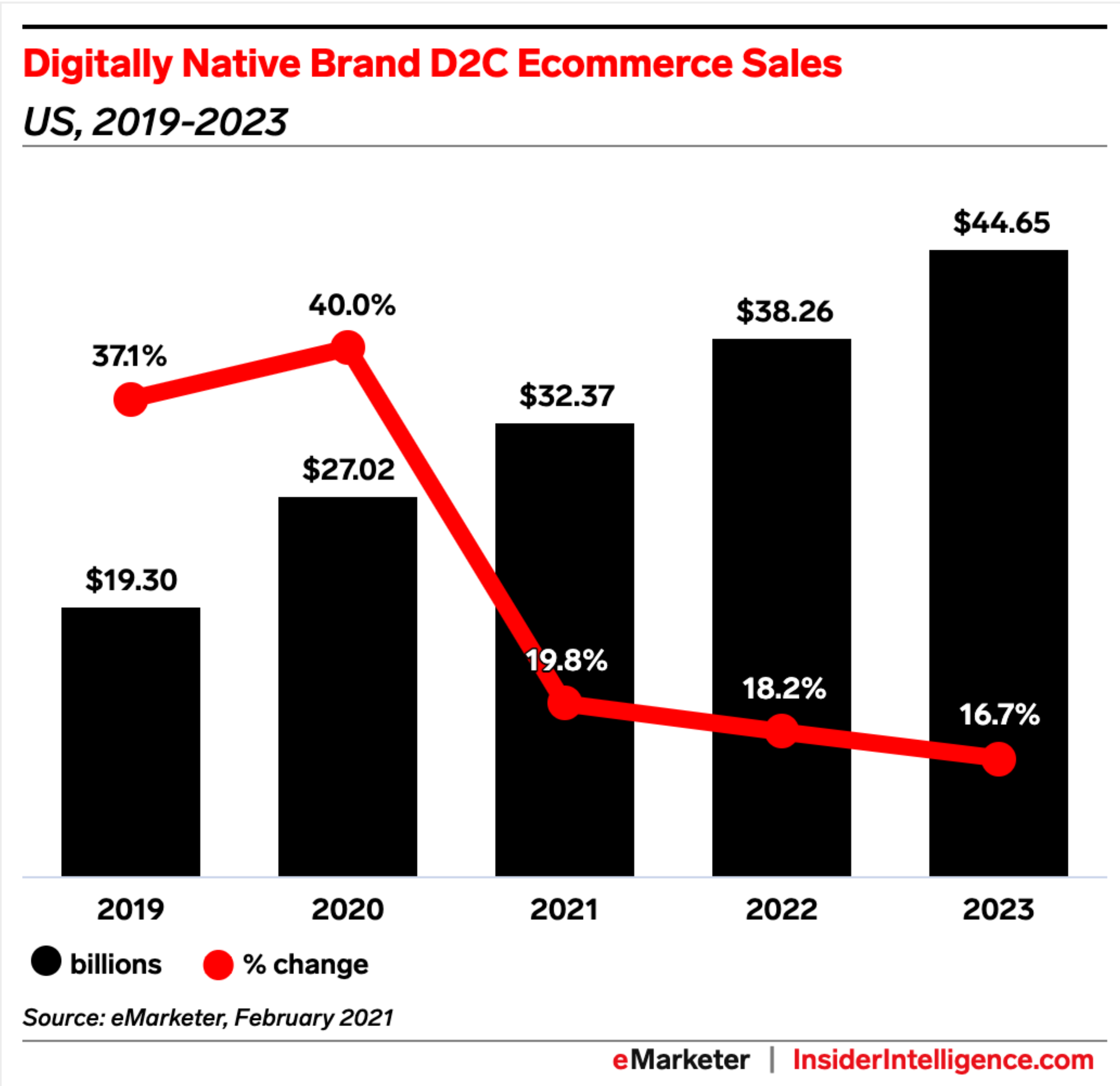
Digitally native brands weathered the storm, grew ecommerce sales by 40% in 2020

Article

For digitally native brands, 2020 was a hard year, especially as the pandemic shifted shopping priorities to essential goods. Even so, collectively, these brands saw increased growth—and more than we expected.

Last year, their direct-to-consumer (D2C) ecommerce sales rose by 40.0%, an upward revision from our earlier estimate of 24.3% growth.



Here are two factors that led to this adjustment in our forecast:

2020 was a mixed bag of performance

Some brands—particularly those discretionary in nature—increased their sales but only slightly. For example, personal styling service Stitch Fix grew its sales by 8.5% in its fiscal year ending on July 31, 2020. Mattress brand Casper also underperformed, growing D2C sales by just 3.6% for the year ending on December 31, 2020.

Not everyone had a rocky year, though. Companies like HelloFresh, BarkBox, The Honest Company, and Blue Apron exhibited strong growth as consumers increased spending on grocery, health, and personal care items.

“Fears that consumer spending would dip because of the pandemic never really panned out,” said Cindy Liu, eMarketer director of forecasting at Insider Intelligence. “In fact, most people spent more money shopping online than ever before, and that was a boon for digitally native brands that were uniquely positioned to weather store closures and capitalize on the shift to online.”

What’s more, as many consumers focused on fitness and health, companies like Peloton also thrived. In fact, the brand’s connected fitness product sales grew over 140% during the calendar year ending in December 2020.

“Collectively, digitally native brands still outperformed the market average of 33.6% growth," Liu said. "This is mainly due to the strong performance of brands like Peloton, HelloFresh, and BarkBox, which disproportionately impacted total sales."

D2Cs went back to their digital-first roots

“In recent years, many D2C brands realized that, in order to scale their businesses, they needed to experiment with secondary distribution channels, like opening up stores, partnering with retailers, and selling through wholesale distribution,” Liu said. “But during the pandemic, the majority of D2C brands' sales were coming from their online channels.”

When we spoke with Cuts Clothing co-founder and CEO Steven Borrelli in May 2020, he said the company had planned to open a retail location in New York later in the year, but that was put on hold due to the pandemic. Instead, Cuts shifted its attention to delivering a premier online experience.

Other D2C brands went through similar motions, and we expect this digital-first approach to continue, especially as the shift to ecommerce persists. This won’t be the only thing driving growth in the future, however.

A look ahead

As more stores reopen and consumers once again shop at brick-and-mortars, D2C brands will continue to expand into multiple distribution channels—with the focus still on ecommerce, of course.

D2Cs will also expand into new categories that are natural extensions of their brands—think men's grooming company Harry’s offering deodorant and shoe brand Allbirds selling apparel and socks.

Beyond this, there will be a greater focus on aligning brand values. Consumers have been paying closer attention to sustainability, locally sourced products, and whether or not brands are helping to serve communities.

“Now is the time for D2Cs to get into expansion mode and figure out how to capitalize on the growth they saw last year,” Liu said. “With shoppers feeling more comfortable returning to stores, these brands will likely face heightened competition, so the last thing they want is to lose relevancy with the customers they’ve just acquired.”