

Digital-native D2C brands shift gears as their ecommerce growth stalls

Article

The trend: With their online customer acquisition costs rising and ecommerce sales decelerating, **digitally native direct-to-consumer (D2C) brands are looking elsewhere for growth**, including opening stores and selling wholesale to other merchants.

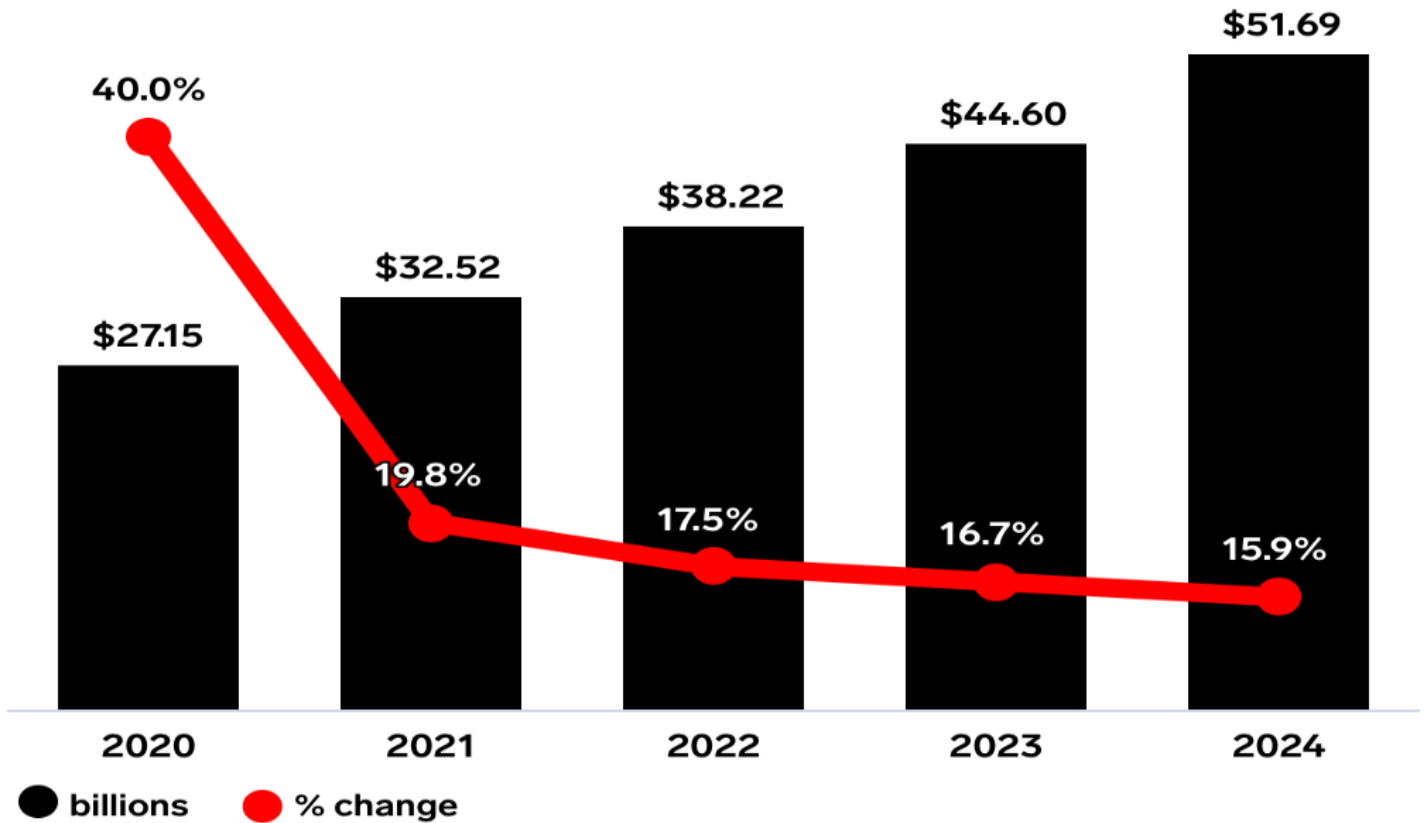
- Many digitally native retailers are opening physical stores, with several, including **Madison Reed**, **Studs**, and **Facegym**, featuring in-store services such as haircare, ear piercing, and

facials.

- Another group of merchants such as **Allbirds** are trading higher margins to expand their reach selling wholesale.

Digitally Native Brand D2C Ecommerce Sales

US, 2020-2024



Note: includes products sold online by digitally native vertical brands founded since 2010 and sold directly to consumers via their owned and operated sites, bypassing standard distribution methods through a retailer, wholesaler, or third-party platform such as a marketplace; includes only brands that started as independent online retailers; ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets and food or drink services

Source: eMarketer, March 2022

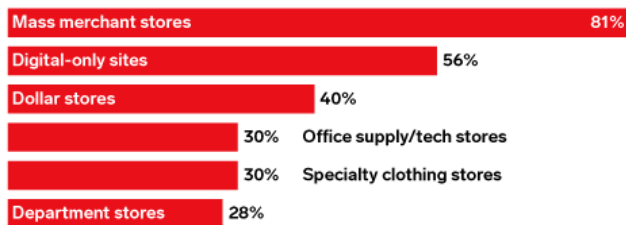
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How we got here: Digitally native brands such as **Warby Parker**, **Dollar Shave Club**, and **Casper** built their businesses by leveraging low-cost digital ads to reach consumers with a message that by cutting out retailers and selling directly to shoppers, they could sell goods at lower prices.

- But amid an economic slowdown, growing competition, and rising digital ad costs, the model no longer works as well. That's why **we estimate** digitally native brand D2C ecommerce sales **will slow to 17.5% this year**, which is down 40.0% from just two years ago.
- Going offline, either via their own physical store or by selling in others, is a logical place to turn given that it is where the vast majority of retail sales take place.

Preferred* Retail Formats for Back-to-School Shopping According to US Parent Internet Users, June 2022

% of respondents



Note: *includes retail formats that at least 20% of respondents plan to visit for back-to-school shopping
Source: Deloitte, "2022 Back-to-School Survey: New Priorities Emerge in a Season of Replenishment," July 14, 2022

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A broader reach: Physical stores serve as a billboard for digitally native brands, enable shoppers to touch merchandise, and provide an opportunity for in-store staff to build connections with customers.

- Those that offer in-store services add to those benefits by providing more reasons for consumers to visit. And **customers who visit those retailers' stores for a facial treatment or an eye exam typically spend more** on products than other customers, per the Business of Fashion.
- For example, Warby Parker stores that employ an eye doctor have a higher conversion rate than other stores, and they also sell a larger share of progressive and anti-fatigue lenses, said **Steve Miller**, chief financial officer, during the retailer's Q2 earnings call.

- Meanwhile, those selling wholesale are doing so to expand their reach in ways that aren't feasible on their own. While Allbirds operates 55 brick-and-mortar stores, its wholesale relationships with retailers such as **Dick's Sporting Goods**-owned **Public Lands** and **REI** are helping it build brand awareness and reach new customers, co-CEO **Joey Zwillinger** told Retail Dive.

The big takeaway: Building out an offline presence is expensive and success is far from guaranteed. That presents a particular challenge at a time when rising interest rates and slowing economic growth are causing many retailers to focus on their bottom lines.

- There are also fewer available locations to place a store as the US retail vacancy rate fell to its lowest level in at least 15 years, per Cushman & Wakefield data reported in The Wall Street Journal. That's pushed up rent prices. For example, asking rents for US shopping centers in Q2 were 16% higher than five years ago.
- As a result, retailers should take a conservative or collaborative approach as they look to expand offline.

Go further: [For more on D2C strategies, read our report here.](#)

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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