Arielle Feger

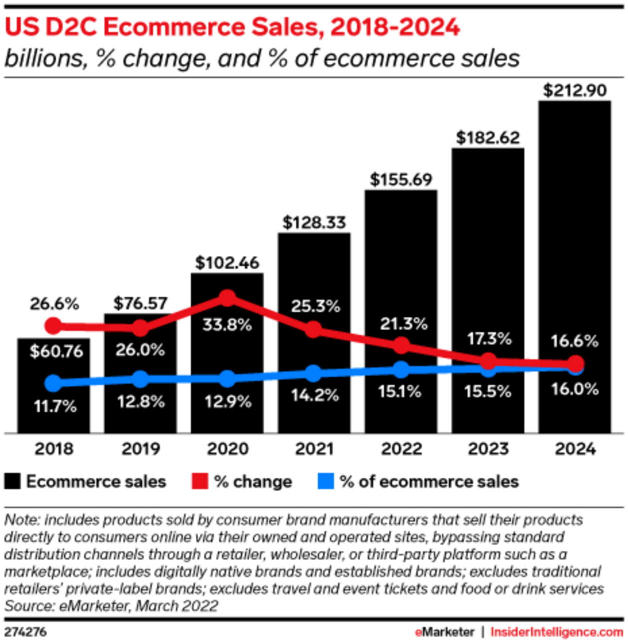
How D2C retail brands are evolving in 5 charts

Article

As the costs of doing business increase, direct-to-consumer (D2C) brands are struggling to find and keep customers. Some brands are selling their products through Amazon to capitalize on its search power. Others are turning to brick-and-mortar stores to help out.

Let's take stock of the situation as 2023 approaches.

1. There's no reason to panic yet

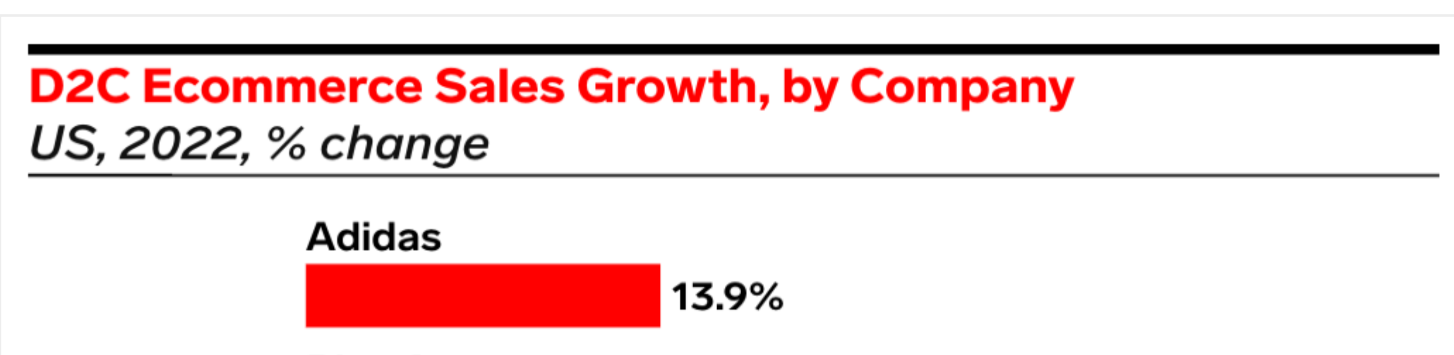


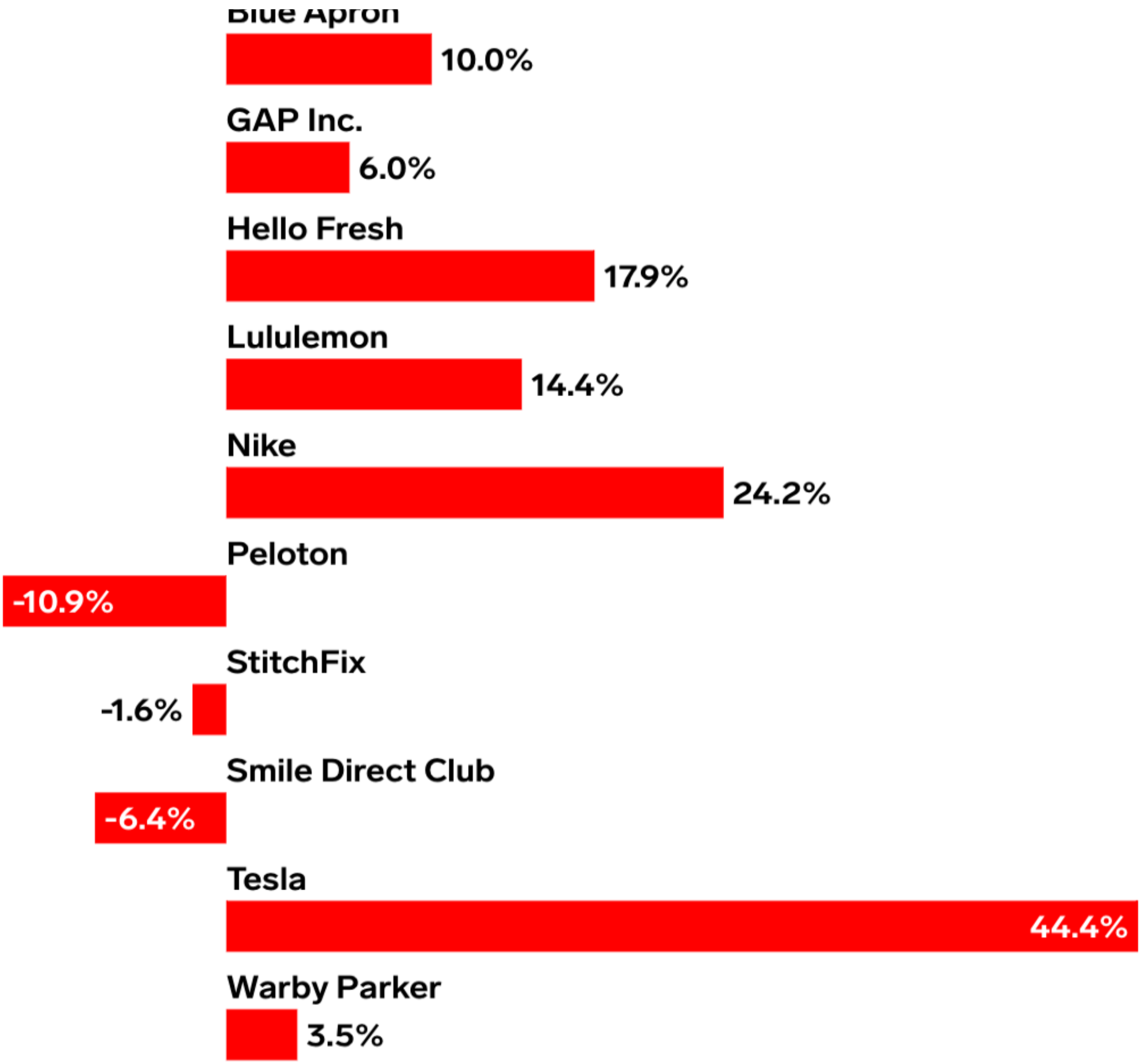
Despite a rocky road ahead, we forecast that US D2C ecommerce sales will see double-digit increases through 2024, when they will hit nearly $213 billion, making up 16.6% of all ecommerce sales.

This growth may be driven in part by an increase in the number of digital D2C brand buyers. US D2C buyers will grow to reach 111.0 million next year, representing nearly 40% of the population.

And it's not just an opportunity for US brands. Nearly two-thirds (64%) of consumers worldwide buy directly from brands, up 15% from just three years ago. The No. 1 reason that consumers buy directly from a brand? It's shockingly simple: They say they get a better buying experience than with a retailer (reported by 60% of consumers worldwide).

2. Growth is not distributed evenly


D2C Ecommerce Sales Growth, by Company
US, 2022, % change
Adidas
13.9%



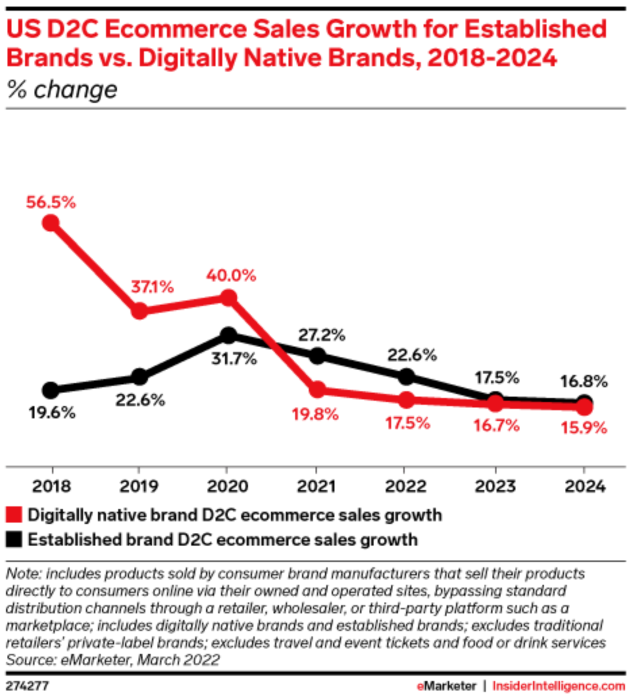
Note: includes products sold online and sold directly to consumers via their owned and operated sites, bypassing standard distribution methods through a retailer, wholesaler, or third-party platform such as a marketplace
Source: eMarketer, March 2022

eMarketer | InsiderIntelligence.com

Sports and athletic apparel companies like Nike, lululemon athletica, and adidas will be among this year's D2C sales growth winners, alongside Tesla and HelloFresh. Meanwhile, companies like StitchFix and SmileDirectClub will see negative growth this year.

Peloton, in particular, has struggled this year as it attempts to rightsize itself after a pandemic boom. Though the company has a strong brand proposition and an engaged customer base, it's suffering as demand for expensive workout equipment fades. Even Amazon may not be able to save it.

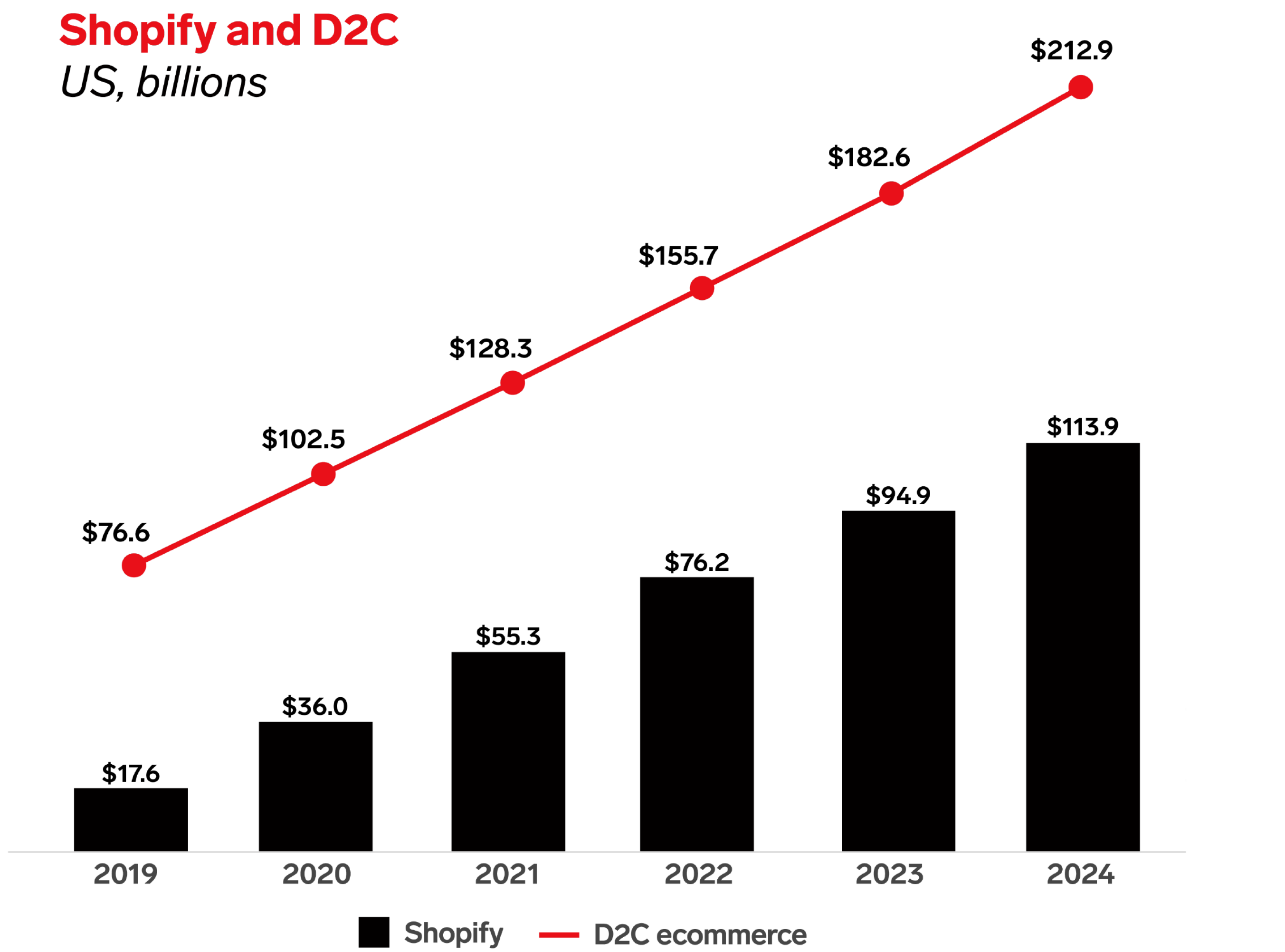
3. Established brands are lapping digital natives



Digitally native vertical brands (DNVBs) may have gotten a head start in the ecommerce race, but they're no longer contributing to the lion's share of D2C ecommerce sales. Rather, established brands are driving sales growth, accounting for more than 75% of this year's US D2C sales. As DNVBs encounter growing pains and stalled ecommerce sales, mass-market brands are swooping in to steal their share of sales.

4. The case for a mixed approach

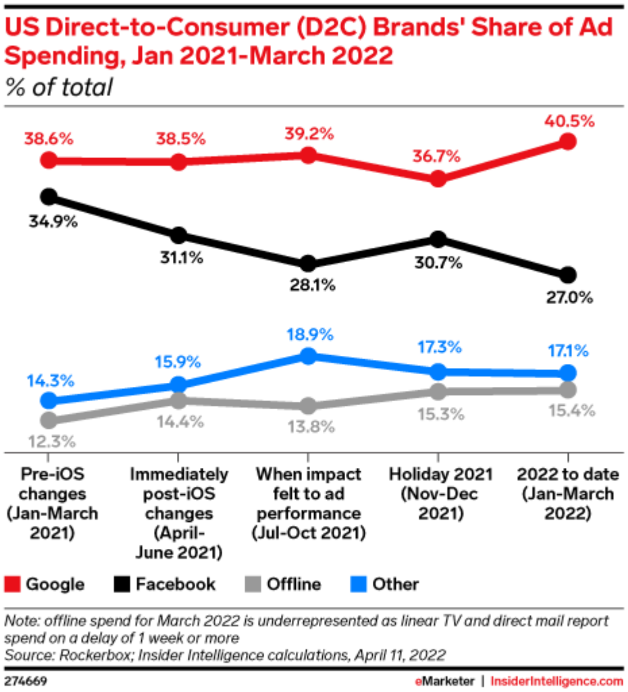
Shopify lowered barriers to brands selling online, giving rise to the D2C ecommerce trend



Shopify has contributed greatly to the success of D2C because it lowers the cost of entry for brands to sell online. But increasingly, many DNVBs are experimenting with brick-and-mortar as consumers flock back to in-store shopping.

Notably, Warby Parker is on track to open 40 stores by the end of this year, each of which the company expects to generate an average of $2.1 million in annual revenues. Allbirds has also been investing in its brick-and-mortar expansion, and with good reason: In the third quarter, the company reported a 53% year-over-year increase in store sales.

5. D2C ad spend is shifting



More than a year out, the ripple effects of Apple's AppTrackingTransparency (ATT) feature are still being felt in the digital advertising world.

And no company has been rocked by the changes more than Meta. In early 2021, Meta captured over a third of D2C brands' share of ad spending. But ever since ATT took effect, Meta's share has been on the decline.

Who's picking up the slack? Google. (Though Google itself is losing share to Amazon ... but that's a conversation for another day.)

TikTok is also benefiting from Meta's backslide. In the second quarter of 2022, D2C brands spent 231% more advertising on the platform (totaling $30 million) than a year ago, per Triple Whale.

The bottom line: D2C brands have their work cut out for them as their profits are squeezed from all sides. The key to success lies in finding a balance between D2C and wholesale strategies.

Brands must maintain their relationships with customers through a seamless shopping experience and loyalty perks while also filling in the gaps with wholesale partnerships to reach new customers wherever they are.

This was originally featured in the Retail Daily newsletter. For more retail insights, statistics, and trends, subscribe here.