Sara Lebow, Arielle Feger, and Blake Droesch

Reimagining Retail: Why DTC is working for some and not for others and what is its second act

Audio

On today's podcast episode, in our "Retail Me This, Retail Me That" segment, we discuss who's having the most success in the DTC world, whether flip flopping so many times has harmed Nike, and how the cookie deprecation effect has impacted DTC. Then, in the second half, we talk about three strategies for what we're calling the digitally native vertical brand or DNVB's second act. Join our analyst Sara Lebow as she hosts analysts Blake Droesch and Arielle Feger.

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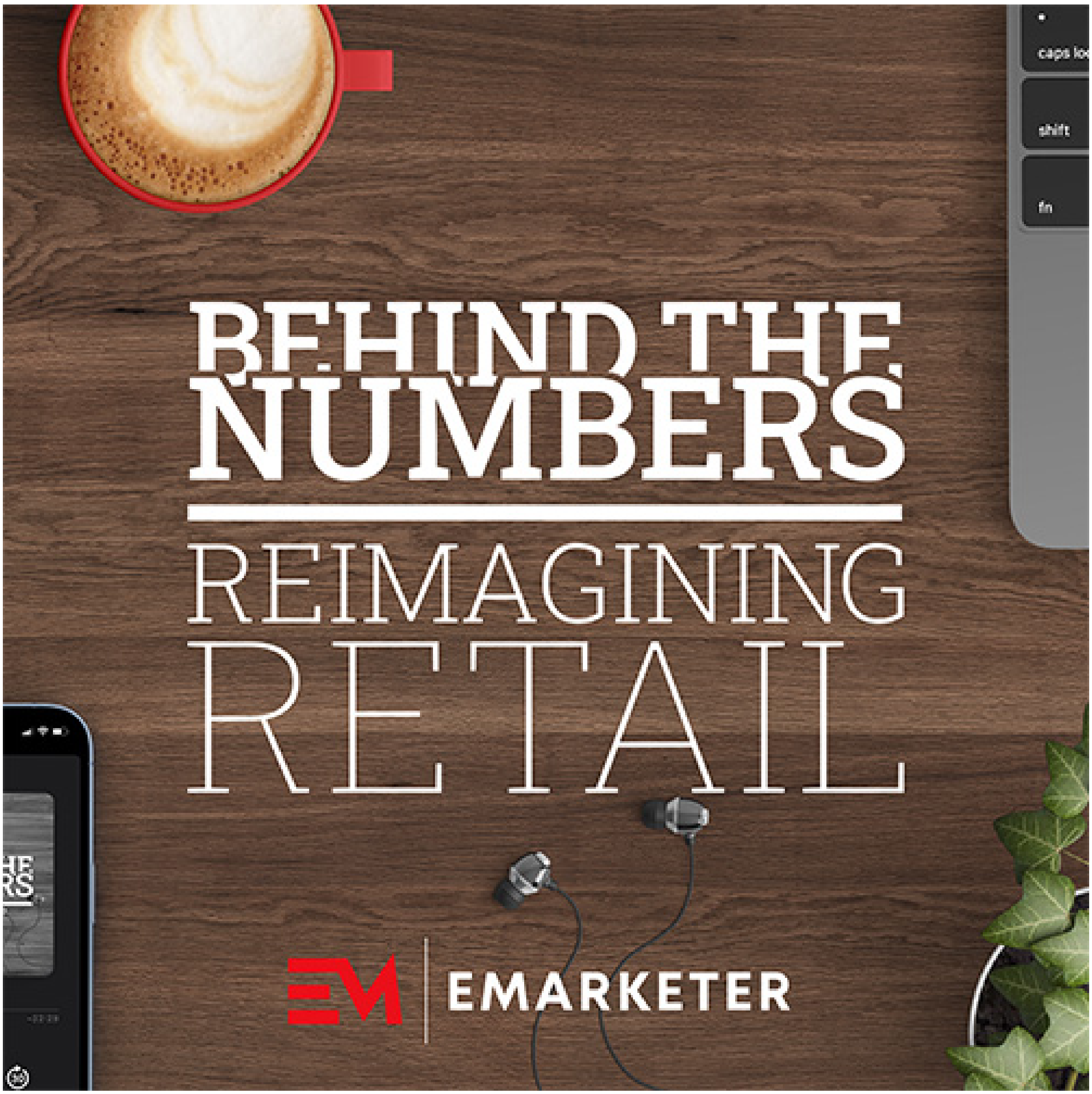

Episode Transcript:

Sara Lebow (00:00):

Unlock the full potential of the creator economy with a one's influencer management solutions and partnerships. Leverage the platform's best in class technology and award-winning expertise in end-to-end influencer program and campaign management to your brand's advantage and drive impressive results. Head over to awin.com/emarketer for more information. Hello, listeners. Today is Wednesday, May 22nd. Welcome to Behind the Numbers re-Imagining Retail and e-Marketer Podcast Made Possible by Awin. This is the show where we talk about how retail collides with every part of our lives. I am your host, Sarah Libo. Today's episode topic is Direct to Consumers second act. Let's meet today's guest. They are here with me in person. Joining us is Senior analyst Blake Dro. Hey Blake.

Blake Droesch(00:56):

Hey Sarah. It's good to be with you in person.

Sara Lebow (00:59):

Good to be with you in person and also good to be with senior analyst Ariel Fager in person. Hey, it's fun to be here in person. Fun to be here in person. Let's jump straight into our first segment. Retell me this, retell me that where we discuss an interesting retail topic. Today's topic is direct to consumer. Second act, DDC Sales will reach about 375 billion this year in the US according to our forecast, that's up more than 10% from last year, and about half of that will come from e-commerce, but not all of it is coming from digitally native brands. So it's not necessarily coming from your Warby Parkers, your Allbirds, A lot of it's coming from more legacy brands. So my question, and I'm going to go to you with this, Blake, is who are the true D two C brands now?

Blake Droesch(01:52):

Yeah, so D two C is basically just a selling channel. It's not necessarily a brand identity as it's been cast over the years. And when you look at which brands are driving D two C sales growth, particularly today, they're established brands, Nike, Adidas, Lululemon. These are the types of companies that typically do well reaching consumers without the help of a retailer. A huge caveat though is even brands that are super well established, I mean Nike being one example, arguably the most well-known brand in the world is not totally reliant on their D two

C sales. In fact, over the years they've walked it back a little bit and I'm sure we'll dive into a little bit more. They've walked it back a little bit and have started redistributing through retailers. The other side of it are digitally native brands. So these are the types of companies that you would more commonly associate with the D two C movement of the late aughts. These are companies like Dollar Shave Club or B Parker. And then more recently Peloton, which were really born online, scaled up really fast through the use of social media advertising. But then as I'm sure we'll get into, are not really doing super well these days.

Sara Lebow (03:14):

Yeah, I mean when we talk about D two C, we're kind of talking about two different things. We're talking about a distribution channel direct to consumer buying things off a website, and we are talking about almost like a marketing strategy, which is that Warby Parker.

Arielle Feger (03:29):

Yeah, it's a little confusing actually. I wonder at what point we're going to start seeing D two C becoming a term that's less associated with the digitally native brands and more associated with that business strategy?

Sara Lebow (03:42):

Yeah, I mean everyone at this point, not everyone, but brands tend to sell wholesale and they tend to sell directly from their own websites.

Arielle Feger (03:52):

Got to do it all.

Blake Droesch(03:53):

And again, it's one of these things that was sort of given a new identity when sort of this business model that you're referring to, the sort of the dollar shaves club strategy of going into a well-established space with big players and creating a business model where you can disrupt gain customers very quickly by offering a competitive product at a better price. And then the idea was grow from there. But the reality is that direct to consumer selling has really always existed. I mean, if you think about the OGs of the D two C model, it's like LL Bean, so just ordering from a catalog, so it's not, once again, it's like everything in retail, what is old becomes new again and it gets hyped up. But then as we've seen where we are now, the hype goes away and the true brand stick around and the ones that have not established themselves, they fate.

Sara Lebow (04:54):

But then with those legacy brands, I mean there has been, so Nike for example has flip flopped to use a shoe pun back and forth a lot between calling themselves D two C saying they have a D two C strategy and selling wholesale. Has that hurt Nike? Has it hurt their brand identity?

Arielle Feger (05:11):

Yeah, I mean I think that it certainly doesn't help if they're consistently going all the way towards one end of the spectrum and towards the other. I think that they just, with all the brand recognition in the world, they just can't seem to figure out the right balance. And so I think that they need to pick a lane and stick in it,

Sara Lebow (05:33):

Put their best foot forward,

Arielle Feger (05:36):

All of those coupons

Blake Droesch(05:38):

And yeah, the interesting thing with Nike is that I think they were able to grow their margins with the D two C strategy, but the reality was is pulling out of retail stores wasn't necessarily bringing their customers to their direct to consumer channels. They found a lot of their customers who were purchasing from them at retail, whether it was Footlocker or DSW, were still shopping at those retailers. They just weren't necessarily buying Nike. And I think that really sort of sums up very nicely sort of what the pros and cons are of D two C selling ours, that yes, you can definitely get better margin and you can control the customer experience totally, but the reality is just retailers still very powerful when it comes to, I promise this will be the last shoe pun, RAs having done so many, but foot traffic and it's really something that cannot, on a macro scale, be replaced even by the strongest brands with the best channels.

Sara Lebow (06:44):

Well not just foot traffic, but also web traffic. So this is something we haven't talked specifically about, but how has cookie deprecation, and this isn't something we've, I guess talked about that much on this podcast, so as we know, third party cookies are going away not quite at the end of this year because Google pushed it back, but at some point soon, third party cookies are going away. That's making a lot more difficult for advertisers and among them D two Cs to be able to target consumers. How is that deprecation impacting D two C?

Arielle Feger (07:17):

I mean, something that I think D two Cs have a strength that they have is that customer data, they're building up their relationships with customers directly and they have a whole rich, rich collection of it, but they're still going to need some support and some help. And I think currently third party cookies are where they're finding that help. But when third party cookies deprecate, I think we will see a lot of people lean further on their wholesaler partners and have more retailer data partnerships to help them strengthen their marketing efforts.

Sara Lebow (07:52):

And can you just lay out very clearly what that does for your data relying on the wholesale partner? What is the advantage there?

Arielle Feger (07:59):

The advantage is you get a wider array of customer data. So if you're Nike and you're working with Walmart to better target your customers, then you have Walmart's access to the customer across various categories so you're able to better understand how they're shopping and what they're interested in

Sara Lebow (08:18):

For those playing along at home, we did it. We circled back to retail media on this podcast.

Arielle Feger (08:23):

We always do.

Sara Lebow (08:24):

Okay, let's keep moving into the second half of this podcast. We're going to be discussing three strategies for what we're calling the digitally native vertical brand or dnv B'S second act. We know that these brands can't remain buzzy online brands forever. That just won't make up all of their sales. So we're going to be talking about strategies that they can use to grow Ariel, what is one strategy that digitally native brands can do to keep growing?

Arielle Feger (08:52):

Pretty simple, get physical. I think that a great way to get in front of people is to be in front of them in a retail store, and I think Warby Parker has been pretty consistently building out its network of stores. They ended Q1 of this year with 245, which is a pretty good size. And something I think that's important to note with Warby Parker is that there are obviously glasses and there are services tied to eyewear. They say approximately 75% of prescription glasses are purchased at the same location where they get their services or their eye exams. So I think that by expanding their physical footprint footprint, we're already done with that, but by expanding that, they're able to kind of capitalize on people going in, getting exams and then looking for frames.

Sara Lebow (09:47):

Are all three of us wearing Warby Parker glasses right now? No, Blake and I

Arielle Feger (09:51):

Are am not. I'm the odd one out.

Sara Lebow (09:53):

Yeah. I think the role of the store in a D two C is an interesting story. We talked a lot about, this is such a local example, but Williamsburg, New York where all of these D two Cs tend to have a brick and mortar. What is the point of that? A lot of them, it's really like an earned media and Instagram opportunity. It's a showroom that you then order things from Warby Parker. It's not Warby Parker, they're in more cities and you go there to try on glasses and to buy your glasses, you still order them from there, but that's normal for

Arielle Feger (10:22):

Glasses. Yeah, I think there has to be a functional element to these stores, otherwise it doesn't make sense.

Blake Droesch(10:27):

Yeah, I think it's the showroom. Then there's the marketing channel and then there's sort of the showroom slash marketing channel. And it really does sort of go back to a lot of digital companies. I mean, the main example being Amazon really did pioneer that of opening up bookstores where there's really not necessarily, the brick and mortar bookstores are not a growing industry, but

Sara Lebow (10:56):

Yeah, although Amazon hasn't been successful there,

Blake Droesch(10:59):

But people are kind of scratching their head, why are they doing this? And then it was around the same time that they started releasing their own electronics and they launched Alexa, and it was really just a way to get people in the store and start experimenting with these technologies. I think D two Cs have taken the same route, and I think Warby Parker, as we point out, it's like if you can find a use case for a physical presence, then you're really killing two birds with one stone, right? You're adding to your service, but you're also creating another sort of marketing channel for foot traffic.

Sara Lebow (11:36):

Yeah. Okay. I'll keep moving with the next strategy for growth, which is going wholesale. We talked about this in the first half, but it's selling in stores. This is a strategy. We've seen tons of digitally native brands do Quip toothbrushes or Billy Razors. They're available at Target. So it's a classic strategy. I mean, it's just building a brand. A brand that I've seen do this quite well is Feast Balls, which I've talked about a few times on this podcast. It's Mr. Beast, the huge YouTube creators Candy bar brand, and he kind of went straight into stores. He launched this brand two years ago with Shopify, but almost immediately set up this Walmart partnership and was available in stores. So I'm a little bit cheating here because this isn't a digitally native brand that then switched up its strategy, but it is a really strong brand that mimicked the digitally native, and you can buy it directly through the website through Shopify, but you can also buy it in stores. And so you get that individual feel of buying from the creator from the brand, but you can also, your kid can pick it up in Walmart, which is pretty convincing.

Blake Droesch(12:49):

Yeah, I think that kind of is the next generation of these D two C brands, which again is not D two C at all, but it has a similar ethos to the Dollar Shave clubs and those other digital upstarts of your, where it is a product that's coming into a well-established market. It's disruptive. It really leverages social media to build the brand, but instead of trying to make it on their own, this next generation I think is savvy to the idea that you can't really effectively do that, especially because of the cost of ads on social media and cookie deprecation, that they're very quick and basically immediate to make sure that they are taking the sort of lessons from those D two C brands, but they are leveraging all of the tools that they have with retailers as well.

Sara Lebow (13:44):

Yeah, it is just this tangled super web of commerce and entertainment trends where you have creators who need to keep making money, so they have retail products, you have the cookie dying, which is also helping these creators build audiences because YouTube is bigger than ever. And then it's just, I mean, if anything I guess is an ad for e-marketer, it's this scrambled web, tangled web. I'm mixing my metaphors. Everything is converging. Okay, Blake, can you give us our final strategy for digitally native growth?

Blake Droesch(14:17):

Yeah, I think the last one is the most simple one is basically just get acquired. That seems to be the end game for a lot of these digitally native upstarts. Eventually they get big enough and they start cutting into some market share of the brands that they've disrupted, and then the brands will acquire them. The caveat is a lot of the times it doesn't end up working out once the brands are acquired. I mean, you think of a company like Trunk Club acquired by Nordstrom, obviously the Dollar Shape clubs and unavoidable answer to this question that they're now, they proved to not be successful with the Unilever acquisition and they're writing it off. It's a tough time right now. Obviously in the acquisition space, there's not a lot of money. There are some brands for one Great Jones, which is a D two C cookware brand that sprung up, I think in 2018, and then it was then acquired by the Meyer Corporation, which is basically the company that owns KitchenAid.

Blake Droesch(15:18):

And I think that's what we can glean as sort of a more successful D two C upstart that caught the eye of their competitor. They actually got a little bit of investing from that competitor, and that was then purchased. So the brand was built, and then they were able to join up with a larger company. And then they're basically companies that are these digital upstarts that get onto the verge of bankruptcy and are then acquired probably for a very low amount of money by a holding company that snatches up brands that are dying. And that's sort of, I guess the acquisition graveyard in a sense. But I think at the end of the day, what we have seen from these digitally native upstarts is that it's relatively easy or it was relatively easy to go in and disrupt a category and gain some customers very quickly.

Blake Droesch(16:16):

What a lot of them hadn't been able to do is a look past the current moment and why they're growing. So if you think about a company like Peloton never really looked past what their business was going to look like after they sold everyone these super expensive bikes, and then the pandemic ended. Warby Parker even, it's an example of a lot of that digitally native brands can do things correctly, but their sales have struggled over the last couple of years because the market for eyeglasses is really only so big. I think that that's certainly one way that a brand could ultimately succeed in this space is to become acquired, but outside of the acquisition, it really then cannot be differentiated from what is this idea of a D two C brand, right?

Sara Lebow (17:11):

Yeah. I guess saying to keep growing and calling get acquired an example of continuing to grow isn't exactly

Blake Droesch(17:17):

Correct. No, not exactly

Arielle Feger (17:18):

Something.

Sara Lebow (17:19):

Any final thoughts, Ariel?

Arielle Feger (17:21):

I mean, I think something interesting that Blake has kind of touched on a couple of times is the value of the original digital native was lower priced, and it was easy, and I think as the pandemic really ramped up, e-commerce and retailers have had to fight more for consumer dollars. They're now fighting on price and ease of use, and so I think it just made these digital natives less unique, I think partly contributing, and I thought that was a really interesting thing that I pulled from what Blake said.

Sara Lebow (17:57):

Yeah, couple that in with cookie deprecation and these brands not being able to target people as directly and you have them really struggling

Blake Droesch(18:06):

And just to finish, it's like you can acquire a lot of customers, but acquiring customers can't be the only thing that a business does to grow, right? They need a higher lifetime value out of the customers that they already have. And again, that's what a lot of D two Cs have struggled with because you can dangle convenience and low prices and acquire a new customer, but if you are operating on very thin margins in order to get that customer, then the business isn't going to grow.

Sara Lebow (18:37):

All right. That is all we have time for today, so thank you for being here with me, Blake, and showing up with your Warby Parker glasses.

Blake Droesch(18:44):

Always a pleasure to be

Sara Lebow (18:45):

Here. Thank you for being here, Ariel, and showing up with your non Warby Parker Glasses.

Arielle Feger (18:49):

Thank you for having me.

Sara Lebow (18:50):

Thank you to our listeners and to Victoria who edits the podcast so it can go directly to our listeners. We'll be back next Wednesday with another episode of re-Imagining Retail and e-Marketer Podcast. And tomorrow join Marcus for another episode of the Behind the Numbers Daily, an e-Marketer podcast made possible by Awin.