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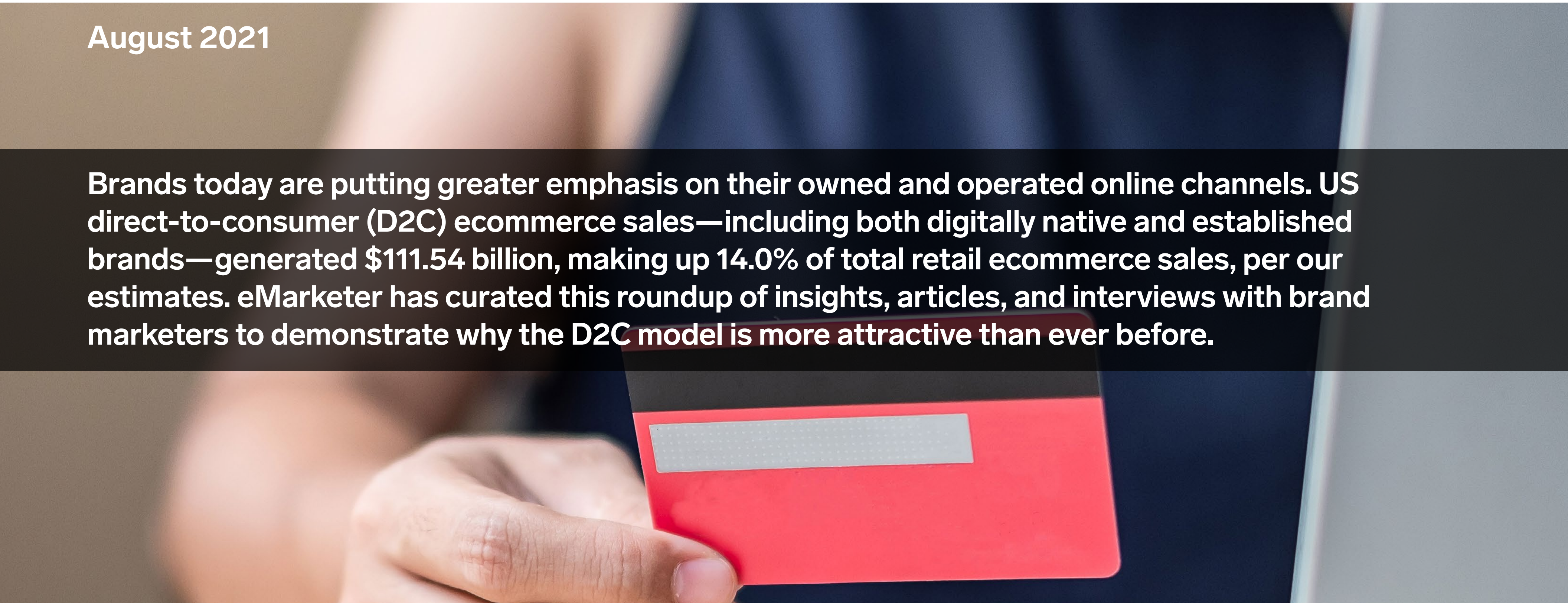
D2C MARKETING TRENDS ROUNDUP



August 2021

Brands today are putting greater emphasis on their owned and operated online channels. US direct-to-consumer (D2C) ecommerce sales—including both digitally native and established brands—generated $111.54 billion, making up 14.0% of total retail ecommerce sales, per our estimates. eMarketer has curated this roundup of insights, articles, and interviews with brand marketers to demonstrate why the D2C model is more attractive than ever before.

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SPONSOR MESSAGE

The strongest drivers over the next decade will be around direct-to-consumer interaction, with personalization and engagement fueling the experience. As seamless, integrated technology drives the consumer products industry, brands that can understand each customer, connect with them meaningfully, and deliver on their promises will be the ones that turn anonymous visitors into loyal fans.

People engage with positive marketing experiences. They are more likely to lean into offers that resonate and which have the potential to make their lives easier. Brands that focus on creating personalized, seamless experiences—where privacy, security, and trust are assumed and assured—will have an easier time standing out against their competitors.

SAP® Customer Experience solutions and the Intelligent Enterprise for the consumer products industry offer a single, unified technology stack to streamline key processes, enable a single view of the consumer, and deliver personalized shopping experiences.

OVERVIEW

The D2C model has been making waves over the past few years, as a greater emphasis on owned and operated online channels has been placed. In 2020, this model became even more attractive as brands and retailers faced disrupted supply chains, delayed orders, and store closures.

US D2C ecommerce sales, including both digitally native and established brands, grew 45.5% last year—generating $111.54 billion and making up 14.0% of total retail ecommerce sales, per our estimates. We expect relatively steady growth each year through 2023, with D2C ecommerce sales reaching $174.98 billion at that time.

So, what's driving D2C's success? To put it simply: data and feedback.

"The D2C model gives brands the opportunity to collect first-party data on their customers," said Cindy Liu, eMarketer director of forecasting at Insider Intelligence. "And with this data, the possibilities are endless—brands can customize products and create new products, all with the customer in mind."

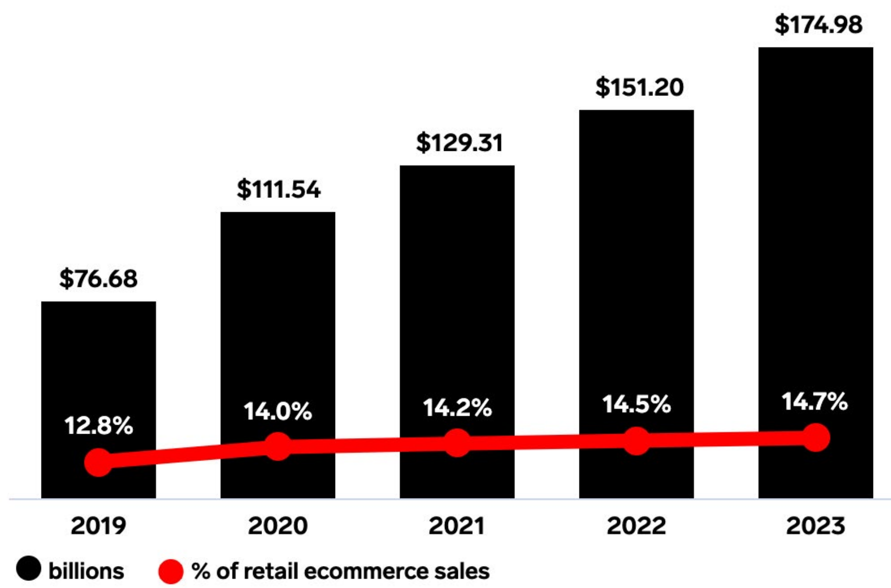
Data and analytics are crucial for all brands to not only better personalize shopping experiences, but also get a fuller picture of who their customers are. As brands vet their collected data, they can also make more informed decisions, especially in regard to next steps in expanding or improving operations.

Many D2C companies have already found this approach to be beneficial. For example, grooming supplies brand Harry's, which is digitally native, has created products by crowdsourcing information from its current shoppers. Meanwhile, more-established brand L'Oréal has leveraged D2C to personalize products through its Technology Incubator—an effort dedicated to developing innovative beauty tech and experiences.

It's important to note that data and analytics are just one component of D2C's success; brand identity is another.

Direct-to-Consumer (D2C) Ecommerce Sales

US, 2019-2023



Source: eMarketer, February 2021

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"Brands leveraging a D2C model are able to control their own messaging and the way their products are presented," Liu said. "This in turn lets them own the entire customer relationship and increases the likelihood of customer retention."

Finally, brands leveraging a D2C model are working to improve margins. They're doing this by eliminating intermediaries, reducing distribution costs, and gaining greater control over their bottom line. Through wholesale, brands' sales are also contingent on the success of the retailer.

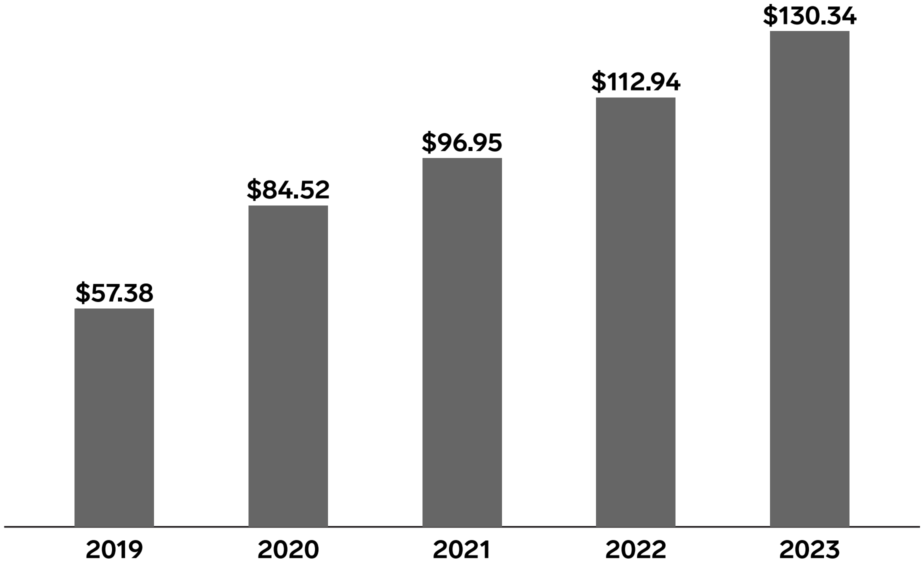
This is clearly evident in the work that Nike is doing, especially as the brand continues to shut down more and more wholesale partnerships.

"An increasing number of brands are finding that investing in their D2C models pays huge dividends," said Jeremy Goldman, eMarketer principal analyst at Insider Intelligence. "For one, it has the potential to be more profitable. It also promises to be a more consistent revenue stream than going through retailers that may be upended by the next pandemic-style black swan event. And finally, D2C models inherently lend themselves to knowing the customer the best, which makes it far easier to provide the superior customer experience that today's consumers demand."

US D2C ecommerce sales grew 45.5% last year—generating $111.54 billion and making up 14.0% of total retail ecommerce sales, per our estimates.

US Established Brand D2C Ecommerce Sales, 2019-2023

billions



Note: includes products sold digitally by established consumer brand manufacturers; sold directly to consumers, bypassing standard distribution methods through a retailer, wholesaler, or third-party platform such as a marketplace; includes brands that did not start as digital retailers and those that traditionally sold their products to wholesalers or retailers; excludes travel and event tickets and food or drink services
Source: eMarketer, Feb 2021

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Note: Estimates only capture ecommerce sales through a self-branded ecommerce site or app, although many brands utilize physical retail and third-party ecommerce as additional channels. Examples include adidas, Apple, Gap, and Nike.

DIGITALLY NATIVE BRANDS WEATHERED THE STORM, GREW ECOMMERCE SALES BY 40% IN 2020

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 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.

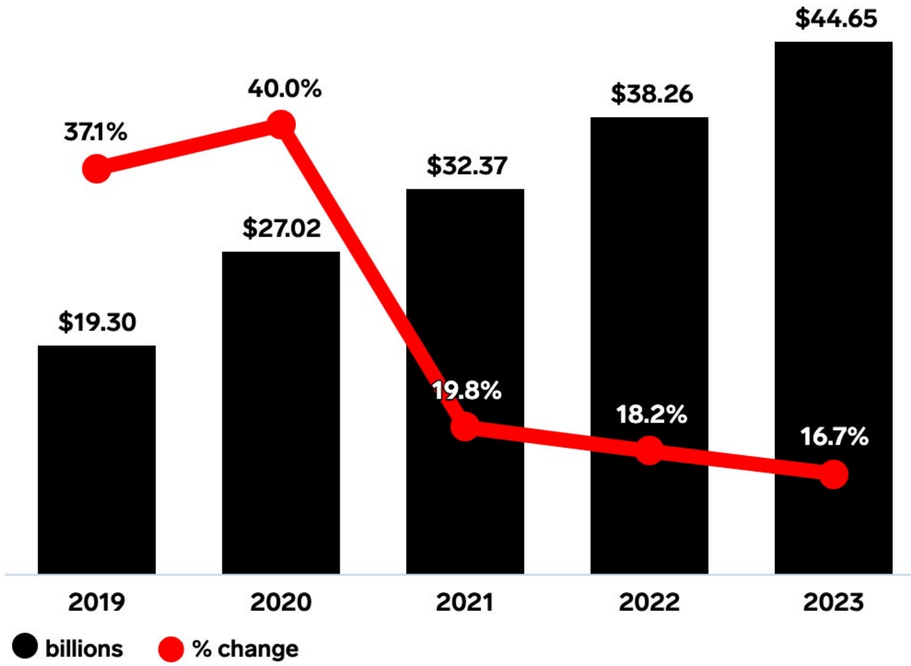
“Fears that consumer spending would dip because of the pandemic never really panned out,” Liu said. “In fact, most people spent more money shopping online than ever before, and that was a boon for digitally native brands that were uniquely positioned to weather store closures and capitalize on the shift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

Digitally Native Brand D2C Ecommerce Sales

US, 2019-2023



Source: eMarketer, February 2021

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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-mortar retailers, 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."

"Collectively, digitally native brands still outperformed the market average of 33.6% growth." — *Cindy Liu, Insider Intelligence*

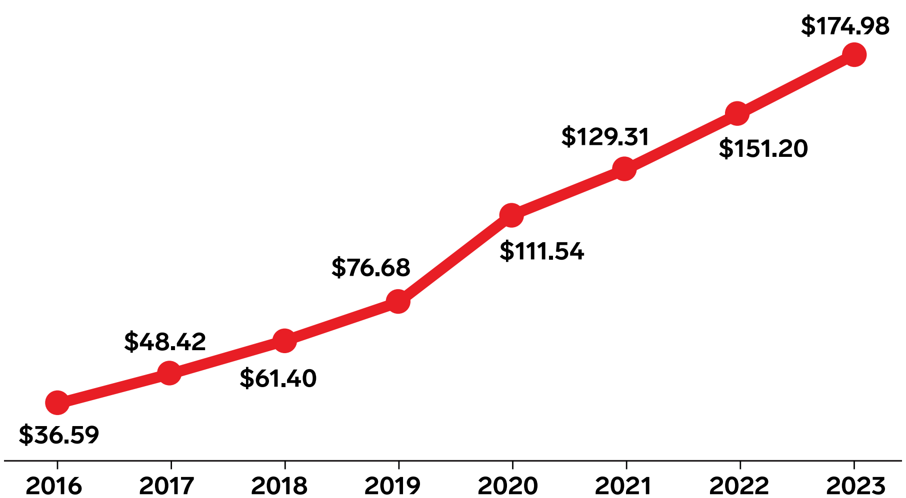
WHAT CAN YOU LEARN FROM DISRUPTIVE D2C BRANDS?

There's a lot of attention paid to D2C brands right now, and for good reason: In addition to the pandemic-fueled 45.5% growth from 2019 to 2020, US digital D2C sales are expected to grow another 15.9% in 2021, reaching $175 billion by 2023, according to our estimates.

There are so many brands gravitating to the D2C model because it gives these brands greater control over all facets of their positioning and strategy, including brand messaging, marketing, and pricing. Moreover, by engaging with customers directly, these brands are able to collect a wealth of customer data, allowing them to improve their product and marketing on an ongoing basis.

US D2C Ecommerce Sales, 2016-2023

billions



Note: includes products sold by consumer brand manufacturers that sell their products directly to consumers digitally via their owned and operated sites, bypassing standard distribution channels through a retailer, wholesaler, or third-party platform such as a marketplace; includes digitally native brands and established brands; excludes traditional retailers' private-label brands; excludes travel and event tickets and food or drink services
Source: eMarketer, Feb 2021

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There's a lot that the typical company can learn from these digitally-native vertical D2C brands. While not all of these brands have the same playbook, many have a few things in common, including:

- **Hyperfocus:** Rather than attempting to launch a line of products at once, these brands often launch with just a few SKUs—sometimes even just one. This discipline allows brands such as Casper to deliver the best possible experience before expanding their assortments.
- **Customer-first approach:** Glossier is just one of many digitally native D2C brands that have made responsiveness a key component of their strategy. In Glossier's case, its gTEAM is tasked with reading Instagram comments, website product reviews, comments in its 21,000 member-strong Into the Gloss Facebook group, posts on the r/glossier subreddit, and a number of other sources. This feedback is then synthesized and turned into new products and other brand programs.
- **Recurring revenue-friendly model:** Brands such as Dollar Shave Club, Peloton, Barkbox, and Scentbird have all realized the importance of recurring revenue, and have built their sales models around subscriptions and memberships.
- **Keen understanding of social media:** Influencers, community-building, and word of mouth are typically how D2C brands continue their growth trajectories.

Of course, established legacy brands looking to create a D2C model may face a number of challenges unique to their own circumstances. These can include digital transformation, instituting the right organizational setup, a willingness to cannibalize existing revenue streams, and managing relationships with wary third-party retail partners.

D2C BRANDS ON THE CURRENT STATE OF RETAIL, AND WHY CUSTOMER EXPERIENCE MATTERS

The past year has been a learning curve for D2C brands. Many have had to put their brick-and-mortar plans on hold and focus solely on ecommerce, while others focused on targeting new customers.

We recently spoke with several D2C companies to get a pulse on the current state of the industry and what they're looking to do next. Below, experts share the key marketing tactics they are currently leveraging and give their insights on the D2C space overall.

Shane Pittson, vice president of growth at Quip

We definitely don't want to exclude people that don't want to shop online, and [brick-and-mortar distribution] was always part of our plan. We have a strong understanding of where our customers are coming from, and it has really helped to inform the roadmap and strategy with those larger scale partners. Retail is still a very fun place for product discovery.

Jackson Jeyanayagam, vice president and general manager of D2C at Clorox

Five years ago, most of these brands were behind. And when we think about Walmart and Target and those guys, they've been behind a little bit as well. Amazon has been so far ahead in this game and everyone's catching up to them. There's a lot of ground to make up, but the good thing is the landscape is wide open and there's a lot of opportunity to make up a lot of ground. You need to be able to move faster, test and iterate. Fail forward.

Mariya Nurislamova, co-founder and CEO of Scentbird

We like having really strong influencer relationships. We started off by giving away a ton of free subscriptions to influencers—that was essentially the only thing we could afford on the marketing side. I remember our first breakthrough was through this one blogger that drove roughly 300 sales in 10 minutes. Obviously now [that's] not a big deal, but at the time it was really insane. That part of DNA has always stayed with us. And part of it is also if the influencer genuinely was a fan of the brand, even prior to us sponsoring them, [it was even more seamless because] they would share real-life stories.

John Sheldon, CMO at SmileDirectClub

When you're able to listen to the customer at every step of their journey, you can create a superior experience. Period. [It's important] to constantly tweak, improve, test, listen, and get feedback from customers about what's working and what's not working. Compare that to when you're in a retail cycle and you have to commit to a retailer a year in advance—you're forced into an environment where you can't change things.

Rebecca Traverzo, vice president of marketing at ThirdLove

We're focused on acquiring new customers, and on driving repeat purchases. Probably every D2C brand in the US is doubling down in the digital space since the pandemic. CPAs are increasingly getting higher and CPMs are as well. Therefore, we're going to need to start looking into other areas on how we can acquire new customers.

Many [D2Cs] had to put their brick-and-mortar plans on hold and focus solely on ecommerce, while others focused on targeting new customers.

WHY DATA CONTINUES TO BE A COMPETITIVE ADVANTAGE FOR D2C BRANDS

Over the past few years, D2C brands have leveraged first-party data to better understand who their customers are and, in doing so, improve the overall customer experience. Now, as shopping behaviors continue to change and evolve, harnessing data—and doing it effectively—is more important than ever.

"Data is so paramount … it can feed into every facet of a business," said Sheryl Kingstone, vice president of customer experience and commerce at 451 Research. "It really is all about that customer data unification and the intelligence, and how you can play there. It does come up as a critical element."

There are many D2C brands that are thriving right now because of the direct access they have to all types of data. In fact, having that kind of information at your fingertips is one of the biggest benefits of being a D2C company.

"You're never surprised which brands are using data," said Ethan Chernofsky, vice president of marketing at Placer.ai. "It's always the retailers that are really far ahead of the pack and the ones who get where the sector is going as a whole."

"And those that are struggling more are the ones that are saying, 'Is this necessary?'" he said. "We can do things the old way, but why would I make a decision with tons of risk without leveraging data to minimize that risk?"

Like every other aspect of marketing, harnessing data can be challenging. Some brands don't know what to do with all of the customer information they've collected, while others feel like they just don't have the right data to work with.

"[There are companies that] are extremely dissatisfied with their current technology stack, primarily because they don't have the right data," said 451 Research's Kingstone. "They have so many silos that are out there, and they're looking at ways to improve that because one of the things they rate themselves on is the ability to deliver these exceptional experiences in real time."

"And that is based [on] data that's going to either personalize or create," she said. "You can't operate if you don't have the right information at the right time."

When leveraging data, brands should focus on creating more personalized and elevated customer experiences versus just building transactional relationships.

"Take Amazon, for example. I wouldn't say everyone thinks that they operate in this immersive experience, but one thing Amazon has is great technology and a great mass market where they're able to operate efficiently," said Kingstone. "Amazon is not a Nike, right? It's not delivering this incredibly content-rich, dynamic personalized experience. How many times have you bought something on Amazon and then they email you to try to sell it to you again?"

When leveraging data, brands should focus on creating more personalized and elevated customer experiences versus just building transactional relationships.

"How many times have you read a book on [a] Kindle and they don't necessarily pay attention to the fact that you already have read that book, and then they cross-sell that to you?" she said. "That's where the nuances are coming down. The bar is really being raised—it's no longer just about personalization. It's about creating connections."

CPGs CAN FIND VALUE GOING DIRECT TO CONSUMERS

This article was contributed and sponsored by SAP.

Paul Smith
Global Industry Principal, Consumer Products
SAP

Over the past 12 months, most consumer packaged goods (CPG) companies have seen significant growth. This is no great surprise, but what is surprising is a common reaction it has caused.

In conversations with CPG companies, most include a confounding assertion about their approach to selling directly to consumers (D2C), saying: “We already do D2C, we sell via marketplaces.”

But the truth is, if you are shifting product volume to consumers via marketplaces, you aren’t really doing D2C. You are coping with unmet consumer needs by using the world’s largest ecommerce retailers as a sales and fulfilment channel, which is what CPG distribution has been historically optimised for.

Ecommerce marketplaces have spent two decades building their own consumer relationships and mastering the art of satisfying fulfilment experiences to reach a massive cohort of consumers who want products delivered to their location of choice.

Marketplaces play an essential role in meeting consumer demand—**it’s just not D2C**. And this is for a few reasons: the consumer remains opaque, you don’t have consent to continue the relationship with them, and the marketplace owns the relationship in exactly the same way a brick-and-mortar retailer owns the relationship with their customers.

If consumers are using marketplaces to access your products, then you aren’t meeting their needs, full stop. You’re also leaving profit, insight, and brand experience on the table to be owned by someone else.

Sure, it’s easier to start selling directly via marketplaces, especially if the marketplace also takes on the pain of fulfilment. But you’re also risking future growth and profitability.

What else is lost by going this route? All of the consumer insight advantage, including delivery of an end-to-end brand experience and the opportunity to own your own destiny of channel profitability.

Look at D2C digital natives like Bulk, who noted in the Retail Revival digital conference that they prefer not to sell via marketplaces, as D2C is more profitable and gives them a direct consumer relationship.

One of the most valuable parts of D2C is harnessing, learning, and iterating from direct feedback.

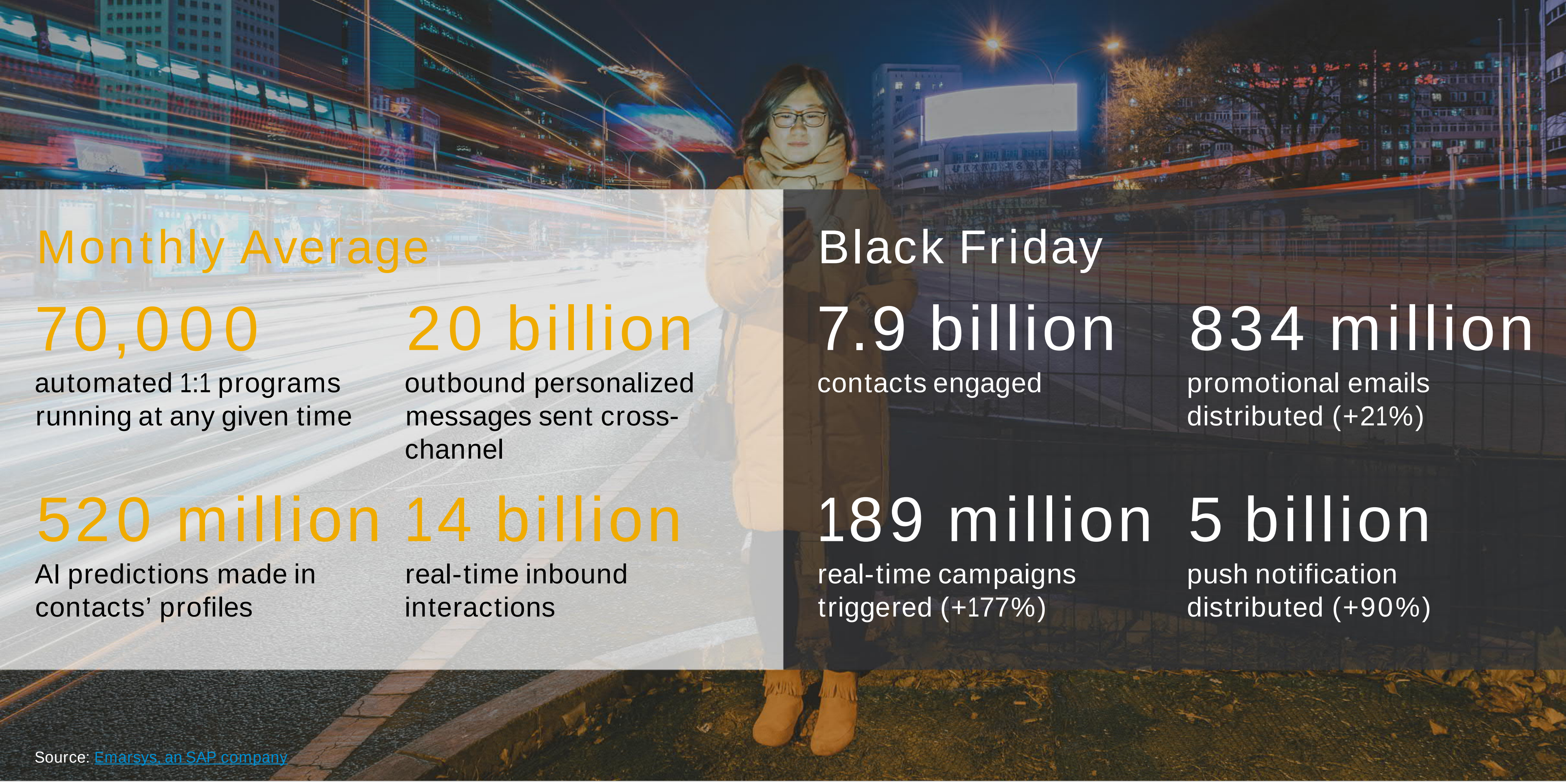
Whether about packaging, sustainability, formulation, unboxing, or product features, feedback can inform demand planning, marketing tactics, segmentation, and real time steering of consumer engagement.

D2C opportunities have increased alongside increased engagement with mobile devices. Consumers spend way more time staring at a mobile device than they do at the third shelf in a physical retail space. Your D2C mission is to be relevant to the right audience, and to place the right product at the right price in the channels that suit your proposition.

With brand loyalty low following pandemic-driven shortages, CPG companies will look to refocus their efforts on asserting their image and competing with private-label brands and retailers as they look to expand more into D2C sales. CPG digital ad spending will grow by 31.7% in 2021 to reach nearly $31 billion in ad spending, according to eMarketer.

With digital marketing and ad spend shifting even more to digital channels, this offers opportunities to engage consumers on multiple social media platforms using Stories, chat, retail media, social commerce, and livestreaming, as well as tapping creators and influencers to drive engagement and sales.

Savvy digital native brands are converging their media campaigns with transactable commerce capabilities to convert the customer into a purchaser at every available opportunity. This is commerce everywhere in action, and is how to reach consumers outside of the marketplaces.



Monthly Average

70,000
automated 1:1 programs running at any given time

20 billion
outbound personalized messages sent cross-channel

520 million
AI predictions made in contacts' profiles

14 billion
real-time inbound interactions

Black Friday

7.9 billion
contacts engaged

834 million
promotional emails distributed (+21%)

189 million
real-time campaigns triggered (+177%)

5 billion
push notification distributed (+90%)

Source: [Emarsys, an SAP company]

SAP® Emarsys® Customer Engagement

Built for scaling D2C personalized customer experiences

Customer-centric personalization provides a different experience for each customer at scale. Whether a customer wants to shop online or in-store, every experience is different. Whether they are a new customer or an existing customer, their experience is personalized to their individual needs and we communicate with them on the channel that they prefer.

Take a tour of SAP Emarsys® Customer Engagement and learn how our customers are personalizing real-time customer engagement and delivering experiences that add value for the customer as well as the brand. [Learn more].

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HOW THE PANDEMIC PUSHED OLIPOP INTO THE D2C SPACE

A D2C strategy wasn't top of mind when soda brand Olipop launched in 2017. In fact, during its first year of business, the brand didn't even have a website—primarily relying on retail brick-and-mortar partnerships to drive sales. But last year, that changed.

We spoke with Olipop's co-founder David Lester and its growth marketing manager Steven Vigilante about the brand's foray into the D2C space, including the key role SMS plays in its monthly subscriptions.

Explain the Olipop brand and how it's disrupting the beverage industry.

Lester: We have a very hybridized food system. In fact, processed food manufacturers take out a lot of the fiber from packaged goods in order to extend shelf life, because bacteria like to eat it. That has led to an estimated 50% decline in the complexity and diversity of our gut microbiome over the past 100 years.

Olipop isn't a silver bullet, but we put a lot of effort into the formulation and the science behind our products. We have a health advisory board led by one of the leading microbiologists in the US. And it's designed as a replacement for soda, delivering that soda-style experience but ultimately benefiting your health rather than damaging it.

The brand now has a D2C site. Was that the plan from the get-go?

Lester: Before, we had no D2C strategy. We thought it was always an interesting avenue, but cans of heavy drinks at a $3 price point are not particularly amenable to the D2C channel. We set the framework up—but we didn't activate it until March of last year. And it was actually Steven who came to me in February 2020 and said there's a lot more we can be doing here. At that point, we were just over a year old as a business. And then the pandemic, as well as shelter-in-place orders, really kicked in. That's where things took off for us. We've seen more than a tenfold increase in D2C sales over the past 12 months or so.

Can you go into more detail regarding what that growth looked like?

Vigilante: As David mentioned, we didn't even have a website for the first year of business. We launched our website in fall 2019, and then we ran our first Facebook ad around February 2020. We saw nice tailwinds with everything happening and people shopping online. At that point, just a few brands, especially in the food and beverage industry, were focused on D2C.

As we started to shift in the summer, a lot of brands ran into a wall. And it happened with us, where we were just running cold Facebook ads. That was our only acquisition channel. We had to figure out what the brands that were way ahead of us were doing, then try to reverse-engineer a channel strategy. We've expanded to multiple different acquisition channels since last fall and continue to add on as we go. It's still a lot of testing and learning. But we've certainly diversified away from leaning on just Facebook and Instagram.

Speaking of acquisition channels, SMS is becoming a big part of your business. On your site, consumers can either subscribe and save on beverages or make a one-time order. Have you leveraged SMS to turn one-time consumers into subscribers?

Vigilante: We've had a lot of success with SMS and took a very hands-on approach to it. We don't view it as just a channel to blast out discounts, but as a way to give a behind-the-scenes look at the business. Regarding subscriptions, we made some changes to the site over the summer last year, just to emphasize our subscriptions more, and started pushing them more from a marketing perspective. It took us about a year to build a base of subscribers. And [since] we made those changes last summer, we've actually grown our subscribers tenfold.

"It's still a lot of testing and learning. But we've certainly diversified away from leaning on just Facebook and Instagram." —*Steven Vigilante, Olipop*

Do you have any data pertaining to that change to the website and the inflection point for subscriptions? How did customers shift when you altered the website?

Vigilante: We launched online in November 2019, and it took us seven months to get to our first 500 subscribers. We made some tweaks to the website, added a landing page, and we've gone from 500 to now crossing 5,000 subscribers. We'll push new flavors out to our subscribers before they go out to the broader site and even before they go out to influencers. We use SMS partially for retention on the subscription side and partially for community-building on the general marketing side.

Lester: It's a very interesting channel. If we look across our communication platforms, from social media to email to text, we treat all of those very differently. And text is the most intimate form of connection and communication, so we tailor our messaging that way. Often, you'll be getting a specific message from a member of the team; the images we use are less polished than those on Instagram, they're more of a user-generated content style of photography. So, it does feel more intimate and like you're getting an insight into the brand.

Remind me, Steven: When we launched the Blackberry Vanilla flavor and you sent out that initial text, what were the sales we did in the first 15 minutes?

Vigilante: We did roughly $15,000 in sales in 15 minutes. We launched a new flavor in December and sold more of it in two weeks than our few slowest-selling products throughout the entire year. We've been able to use this channel to really drive interest. SMS is one of the highest-converting channels I've ever seen.

What are the typical open rates on a text?

Vigilante: Open rates on a text are about 80%. And then we convert about 40% of the 80% who open. So, you're looking at about a 50%-plus conversion rate. Meanwhile, it's about 5% on the website. So, that's 10 times our standard conversion rate.

> **"Business is managing cash on a tight runway, and we can turn our spend on and off on a week-to-week, almost day-to-day basis." —*David Lester, Olipop***

Shifting gears, before you dove into the D2C space, you started off in retail stores, correct?

Lester: Yes, we started in retail and then pushed into ecommerce, which makes up close to 50% of our revenues at this stage. People are more comfortable shopping online now; the household penetration has increased. And we have had to get more sophisticated, which has paid off, and it's given us the opportunity to do marketing as an early-stage business that we otherwise wouldn't have been able to do.

You can't see the ROI on outdoor ads or magazine ads, but you can in the digital space. Business is managing cash on a tight runway, and we can turn our spend on and off on a week-to-week, almost day-to-day basis.

That's pretty vital for a business at our life stage.

Vigilante: We see a substantially higher number of people who are actually first-time subscribers to the site, but who've never bought from us online before. And we chalk that up to people who find the product in retail and love it. But we don't sell 12-packs in retail, we sell just single cans. They can come to our site, subscribe, and get a box shipped to them every two, four, or eight weeks, whatever they want. And it's a flywheel effect.

Or you have someone who doesn't necessarily want to buy a 12-pack at the time, but then they find out we're in the Kroger down the street, and they can go there and buy single cans. We don't necessarily care where people are buying our products from; we want to meet people where they are, and that's how we operate.

PEACE OUT SKINCARE TALKS TIKTOK, INTERNATIONAL EXPANSION, AND MORE

The past year has been a whirlwind for many brands as they readjusted their marketing efforts to keep up with the changing landscape. One such brand, D2C company Peace Out Skincare, learned to be more nimble as it navigated a then-emerging platform—TikTok—and the Gen Z customers it caters to.

We spoke with Junior Pence, CMO and creative director at Peace Out Skincare, about what the brand is doing to reach younger consumers, what its social media efforts look like, and its recent plans to expand internationally.

What were the past 12 months like for Peace Out Skincare?

We learned that communication was key for us, and being flexible and nimble was important as well, because what we experienced during the rise of the pandemic was the rise of Gen Z.

During the pandemic, we were very much focused on this group as being a new consumer. With the rise of TikTok, they came to be such a force to reckon with. So the nimbleness of adjusting a whole entire marketing program strategy and PR strategy, that was fun and exciting.

Adjusting was not very difficult. It was really, "How do we incorporate more messaging?" whether it was through ecommerce, SMS, etc. We learned the value of TikTok. We learned that Instagram became what we like to call "your lazy uncle at a party," and TikTok was the new frontier.

We also learned that the adjustment or segmentation of social media was beginning. What I mean by that [is] YouTube basically went on hold, if you will, unless you were looking for a movie trailer. Beauty tutorials—especially even skin tutorials—were no longer relevant. People, who were now primarily on their smartphones or tablets, were really looking for bite-size, digestible content.

And we adapted everything we did for mobile. That channel became our primary source of outreach not only to our Gen Z consumer[s] but also to all of our demographics because we saw a humongous shift in our demographics searching on or with their phone versus the computer. That really changed a lot of what we did in terms of how we created content, how we spoke in our content, and how we laid out our content.

"We learned that Instagram became what we like to call 'your lazy uncle at a party,' and TikTok was the new frontier." *—Junior Pence, Peace Out Skincare*

Now that states have reopened and consumers are comfortable again shopping at physical locations, have you thought about what the brand's post-pandemic efforts will look like?

There's definitely a significant change in consumers' shopping habits, and there's a couple of different ways in which that's happening. Brick-and-mortar sales are definitely increasing, and we're noticing a shift in ecommerce. That is slowly lowering, but it was something we predicted. For us, it's finding the balance.

Consumers will start to spend once again, but they're really focused primarily on getting out of the house and going somewhere and socializing with their friends. What we're looking at is how do we change the way in which we talk about our product to fit more of a travel lifestyle, more of a social lifestyle, more of a lifestyle that is post-pandemic.

What learnings from the last year do you plan to incorporate into the brand's retail experience?

For one, we'll be driving more to [our retail partner] Sephora versus what we were doing in the pandemic, where we were driving predominantly to our D2C site and to Sephora's ecommerce site. But now that Sephora is open, we want people to go back into Sephora and find our products, especially now that we're so routine-based.

We will be moving differently on all the platforms that we are currently on. TikTok will be different—we're going to put more money behind it, driving specifically probably to Sephora in the beginning as it opens so we can build that business back up.

In terms of working on Instagram, that will definitely morph into a more advertising Sephora-based business as well. But again, we are continuing to grow our ecommerce business, so finding the right balance.

With Sephora being our No. 1 partner, it's vital that we help them and work with them to continue to drive our consumer[s] back into the store. At the same time, we know that we have a secondary clientele that doesn't shop at Sephora. They're not prestige beauty buyer[s], but they still buy our product. So we will need to continue engaging with them and driving them to our D2C site.

"Subscription is also going to be another big focus for us [in 2023], and we're working to expand our rewards program with our consumer[s], driving them back." *—Junior Pence, Peace Out Skincare*

Tell us about your recent international expansion.

We launched in Boots [in the UK] and we have expanded into [the] UAE. We'll be moving into Southeast Asia in 2022. Right now our focus is on the UK because we're seeing such a strong response to our business. We're focusing on how to build those businesses, how to make them stronger, because the UK is a market unto itself, not like the EU, and they have a very robust acne influencer base, which we have tied into.

Our Canadian business is on fire, too. We've expanded more into Canada in terms of hiring a PR agency there.

Overall, the expansion of our businesses is really focused on communicating to the consumer, because each consumer has his [or her] own voice and is a very different client for us. It's also figuring out how to use things: How do we use SMS in the UK if we even can? How do we do email in the UK because they have very different consumer protections?

What's next on the horizon for the brand?

Growth, for sure. We'll be expanding our team, and throughout the rest of 2021 into 2022, we're going to be looking at building a global team, which will definitely be part of how we're going to be expanding our operations infrastructure, our sales team, our brand team.

We have our pipeline basically built out to 2023. It doesn't jump back and forth, but for us, routine is key right now. Subscription is also going to be another big focus for us, and we're working to expand our rewards program with our consumer[s], driving them back.

D2Cs IN CHINA ARE STEPPING TO GLOBAL BRANDS WITH THEIR HOME-COURT ADVANTAGE

Though virtually unknown outside of China, a new crop of local D2C brands are making a name for themselves at home—and even outperforming some of the major foreign players.

During the country's recent 618 shopping holiday, which takes place each year around June 18, Chinese brand Babycare surpassed Procter & Gamble's Pampers in sales volume, according to Alibaba. The ecommerce giant also reported that 459 new brands to Tmall (those that had been on the platform for less than three years) posted the highest sales in their segments in the first half of June 2021. Local beverage brand Genki Forest outsold Coca-Cola and Pepsi on Tmall at last year's event.

In China, D2C brands lean heavily on digital but are less likely to launch standalone apps. Instead, they rely on the digital ecosystems of the country's internet giants, reaching consumers where they already are.

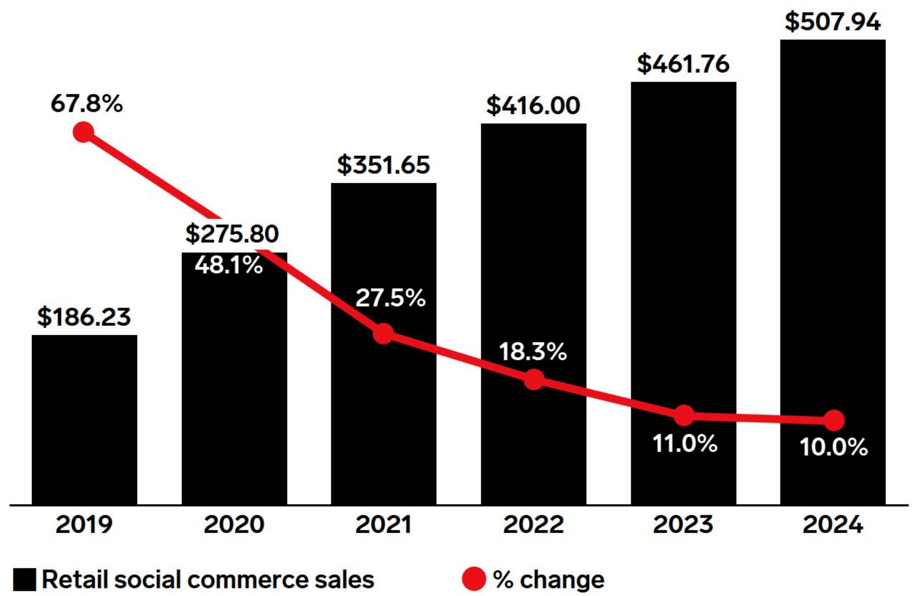
Among the top platforms in this space, WeChat offers brands a more intimate connection with shoppers. Brands can start a private group chat with a subset of their audience, and users of the super app can easily share branded miniprograms with their contacts. By contrast, Alibaba's Tmall provides broader reach and highly customizable brand pages that come with an array of features. Other major players include short-video apps Kuaishou and Douyin (TikTok's sister app), as well as the Pinterest-like Xiaohongshu.

Most of these apps are social in nature, so it's little surprise that D2C players there are highly dependent on social commerce selling, which we forecast will generate RMB 2.427 trillion ($351.65 billion) in China this year.

This new generation of Chinese D2Cs holds the home-court advantage in a uniquely complex market. They tend to be better versed in local digital ecosystems, venturing beyond the top-tier social networks to join more niche platforms. For example, Banrixian, a D2C mattress company, is not only active on Xiaohongshu, but it also has a presence on Haohaozhu, a home-improvement app, and Zhihu, a knowledge-sharing platform. In addition to selling on other lesser-known ecommerce sites, Banrixian is also available on group-buying platforms.

Retail Social Commerce Sales in China, 2019-2024

billions and % change



Note: includes products or services ordered via social networks (such as Douyin, Kuaishou, WeChat, and others) regardless of the method of payment or fulfillment; excludes travel and event tickets, tips, subscriptions, payments (such as bill pay, taxes, or money transfers), food services and drinking place sales, gambling, and other vice goods sales; excludes Hong Kong
Source: eMarketer, May 2021

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The brick-and-mortar footprints of these brands are relatively small to nil, but some that do offer in-person retail are leveraging their direct customer relationships to optimize the experience. For instance, it's not unusual to see customers line up outside of stores for hours at a time. To address this issue, bubble tea chains Nayuki and Heytea launched WeChat Mini Programs that report the wait times and inventory of each store.

Another reason behind local D2Cs' success is their ability to quickly iterate based on emerging trends. The recent rise in pet ownership has inspired animal-themed designs. Meanwhile, the "guochao" movement has revived in young consumers an interest in traditional Chinese culture, from its ingredients to apparel to decorative motifs. Blind boxes are popular, too; customers won't know what product they have bought until they unwrap it, which adds an element of surprise and even encourages repeat purchases.

Some D2C companies are also besting global brands by offering competitive pricing or tailoring their products to local tastes and needs. Premium athleisure brand Sylphlike Loli, for example, keeps its prices below the RMB 300 ($43) threshold, in contrast to Nike and adidas. Cosmetics brand Perfect Diary, which caters more to the skin tones and concerns of consumers in China, has been stealing market share from L'Oréal's Maybelline in recent years.

These digitally native brands understand that consumers in China are not a monolith. Therefore, segmentation, rapid product introduction, and variety are key. Chinese D2Cs are unencumbered by marketing rationale of the past and pursue brand collaborations that may seem too bold, or even too quirky. It also helps that the companies are often located near manufacturing hubs, and their close ties with manufacturers are proving to be a major advantage.

Young consumers in China are increasingly confident in and proud of homegrown brands. Unlike older generations, this cohort does not view Chinese brands as necessarily inferior in quality to their foreign counterparts.

Crucially, all this is happening as China ranks as the second-largest retail market in the world. And in seven years, it will be the largest economy worldwide, according to the Centre for Economics and Business Research (CEBR).

China's new generation of D2Cs hold a home-court advantage in a uniquely complex market. They tend to be better versed in the local digital ecosystem.

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