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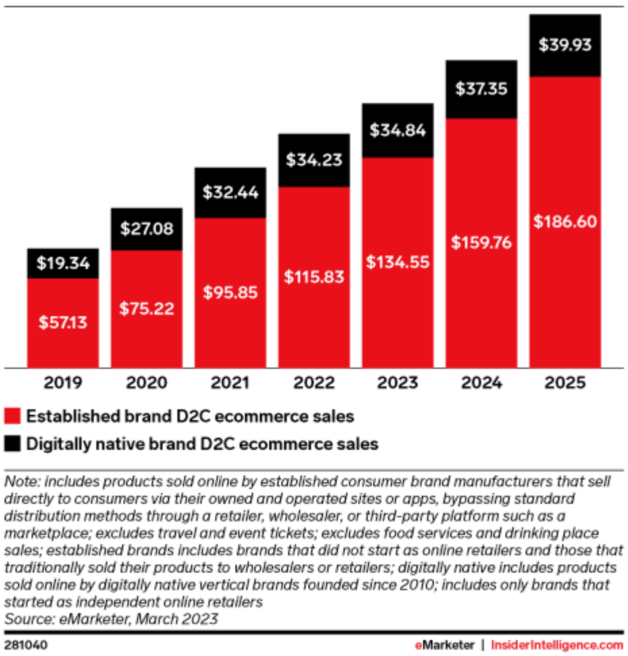
Why digitally native brands struggle without traditional retail strategies

Article

Digitally native vertical brands (DNVBs) have a long way to go to catch up to established brands. While established brands will make up $134.55 billion in D2C ecommerce sales in

2023, digitally native brands will make up just $34.84 billion, according to our March 2023 forecast. And while established brands are recognizing the need to embrace wholesale partnerships to access new customers, digitally native brands are learning to balance online growth with physical presence.

Since DNVBs like Warby Parker and Dollar Shave Club gained popularity in the 2010s through their digital-first approach, many have struggled to break out. Still, they do carry some advantages.



US D2C Ecommerce Sales for Established Brands vs. Digitally Native Brands, 2019-2025
billions

Note: includes products sold online by established consumer brand manufacturers that sell directly to consumers via their owned and operated sites or apps, bypassing standard distribution methods through a retailer, wholesaler, or third-party platform such as a marketplace; excludes travel and event tickets; excludes food services and drinking place sales; established brands includes brands that did not start as online retailers and those that traditionally sold their products to wholesalers or retailers; digitally native includes products sold online by digitally native vertical brands founded since 2010; includes only brands that started as independent online retailers
Source: eMarketer, March 2023

The value of D2C. Early digitally native brands aimed to cut out retailers and reach consumers more directly.

"Too many legacy retailers get caught up in this channel conflict and silos," said Steve Dennis, president of SageBerry Consulting and author of "Remarkable Retail," on a recent "Reimagining Retail" podcast. "It is a huge advantage to start and build your system with the customer as the channel, [and] not really care about where you sell it. Have one database, have this very integrated view, and have the latest and greatest technology."

Dennis referenced Hims, a sexual wellness and telehealth brand, which has expanded its focus to offer online medical consultations. The brand successfully employs a subscription-based model to maintain consistent revenue streams, reducing the need for constant customer acquisition campaigns. Hims also optimizes its packaging for low shipping costs and minimal returns, boosting profitability.

With its distinct positioning, strong revenue growth with gross margins at 82% in Q2 2023, and potential expansion into related product lines for both men and women, Hims has effectively orchestrated a successful D2C business model. But even with D2C success, Hims sells wholesale in Target, which allows it to attract more consumers.

Why have some DNVBs hit a wall? Online-only growth strategies falter as competition for customer acquisition increases.

“There are so many costs to a digitally native brand that I think were lost on people. Everybody just focused on customer acquisition and first-party data and didn’t think through all of the other logistical components,” said our analyst Suzy Davidkhanian.

Stores are still nearly 85% of sales, Davidkhanian noted. That means wholesale partnerships can buoy sales for DNVBs.

- Wholesale partnerships provide access to customers already interested in the brand, reducing customer acquisition costs.
- Wholesale partnerships are also a form of brand extension and provide customers with the assortment of goods that they need.

“Wholesale really gives you that reach, gets you in front of the right customers, hopefully, if it’s the right partner. And yeah, you might have a 45% or 50% margin instead of 70%, 80%, but you’re not having to spend all this other money and take as much time to build a brand,” said Dennis.

Davidkhanian pointed to makeup brand Glossier, which initially won people over with what it dubbed a community-oriented approach to beauty. However, leadership changes and sustainability concerns proved to be obstacles. Glossier also struggled to define its brand identity, as it was neither a drugstore nor a prestige brand.

Glossier is now expanding into wholesale partnerships with retailers like Sephora, making its store experience more immersive, and aiming to revitalize the brand’s image.

“It’s one thing to build an exciting brand. It’s another thing to build a lasting brand,” said our analyst Sara Lebow.

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