JUL 11
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3 reasons why D2C's share of ecommerce sales is plateauing

Article

The years of high double-digit growth for US direct-to-consumer (D2C) ecommerce sales have ended. Next year, D2C will account for 14.9% of total retail ecommerce sales, and will plateau around that mark for the next couple of years, according to our May 2024 forecast. Established and digitally native brands are adjusting to this new era marked by costly social ads, reinvestment in wholesale, and a renewed focus on brand marketing.

1. A competitive social ad market makes customer acquisition costly

"There was a lot of hype around selling D2C back in the age of cheap social advertising, when a brand could scale successfully—and cheaply—by setting up an online shop and promoting through Facebook and YouTube, for example," our analyst Blake Droesch said.

However, the pandemic sparked an ecommerce boom that drove a lot of new businesses to rely on social media to acquire new customers. This shift led to a more in-demand, crowded, and costly ad market.

"Over the last couple of years, social ad impressions have gotten more expensive, and many of the brands that were able to ride the initial wave were not able to sustain that growth. Newcomer brands have also been discouraged from using that model."

2. Established brands are reinvesting in retail

Established brands that moved away from retail over the last couple of years and embraced selling directly to consumers through their own websites have reversed course.

Nike, for example, has reestablished its partnerships with retailers including Macy's and DSW after admitting it had "over-rotated" away from wholesale a little more than intended," the company's CEO John Donahoe said. Although Nike has been able to grow its D2C ecommerce sales by $5.7 billion since 2017, when it began cutting ties with retailers, D2C ecommerce sales will only account for 27.3% of its business this year, according to our May 2024 forecast.

"Despite the rise of ecommerce and the influence of digital media on shopping behavior, the component of people going to physical stores to make purchases is still too powerful to ignore," Droesch said. Physical retail will make up 83.7% of all US retail sales this year, amounting to $6.234 trillion, according to our February 2024 forecast.

3. Many digitally native brands have not strategized long term

Digitally native D2C brands that made a big splash when they first emerged have either seen their sales flatline or decline, Droesch said. By 2026, digitally native brands will make up less than 20% of all D2C ecommerce sales, as growth continues to slow YoY.

"For many digitally native brands, it was easy to gain customers through promotions and free trials, but there wasn't enough focus on brand marketing," Droesch said. "When that happens, brands may be able to scale very quickly and attract investor attention, but the lifetime value of your customer isn't high. This model makes it hard to sustain a quality customer who is willing to pay full price and spend on more products over time."

Take Peloton, for example. "[Peloton] focused too much on the pandemic climate, when people were exercising at home," Droesch said, and did not anticipate demand once they sold the bike and a subscription. This year, Peloton's D2C ecommerce sales will decline 9.5% to reach $0.56 billion—less than a third of what the company saw in 2021 ($1.73 billion)—per our May 2024 forecast.

The bottom line: "Regardless of whether you're an established or digitally native brand, you need to be realistic about having a balance between wholesale and D2C. No business can be entirely D2C," Droesch said. "Brands need a multichannel selling strategy that meets consumers where they want to shop."

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