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Digital-native retailers struggle to turn a profit

Article

The news: A number of direct-to-consumer (D2C) retailers are struggling to make the shift from rapid growth to profitability.

- Children's apparel retailer **Rockets of Awesome** is running low on funding and exploring a sale of the company, per The Wall Street Journal.
- Eyeglasses retailer **Warby Parker** last week reported continued losses in Q4, while it also issued a weaker-than-anticipated forecast.
- Footwear retailer **Allbirds** revealed its costs rose in Q4, which is weighing on its profitability.

More on this: Soaring digital ad costs, rising shipping costs, Apple's iOS privacy changes, and smaller-than-anticipated customer bases (helped in part by a pandemic-related shift in consumer purchase behaviors) are converging to create a challenging environment for many D2C brands.

- An analysis of public D2C companies with market caps of more than $800 million found that nearly every one of these companies is facing revenue contraction, shrinking margins, runaway losses, or a combination of all three, per CNBC.
- While many D2C brands leveraged relatively cheap Facebook ads to build awareness and drive growth, the cost of those ads is skyrocketing due to rising demand; the cost to reach 1,000 people on Facebook in the US rose from $6 to as much as $18 within the past two years, **David Herrman**, a social media ad buyer, told CNBC.
- To counteract slowing growth, a number of D2C retailers, including Allbirds, pet supplies seller **Bark**, and streetwear brand **Planet Brooklyn Academy** are turning to wholesale as they seek alternative ways to build brand awareness and expand their reach.

Not every D2C brand is bearish: Conservative-leaning coffee brand **Black Rifle Coffee**, which went public via a SPAC merger in February, said the IPO is enabling it to place $150 million on the balance sheet to execute its strategy.

- The retailer aims to increase capacity for roasting coffee, open new retail stores, and rapidly expand its wholesale operations.
- The retailer raised its 2022 revenue outlook to **$315 million** from its previous **$311 million** estimate, which would be a 35% increase from 2021.
- However, the retailer is also struggling to build brand awareness. Black Rifle Coffee's aided brand awareness is still below 20% nationally. Moreover, the retailer—which is focused on veterans, military, and first responders—only has 17% brand recognition among those groups, CEO **Evan Hafer** said during the retailer's earnings call.

Why it matters: The days of nearly any upstart D2C retailer turning to inexpensive digital ads to drive rapid growth are over. That means D2C retailers need to find new ways to tell consumers about their brands.

- Black Rifle Coffee is shifting its marketing spend to influencers, as well as podcast and sports sponsorships.

- The challenges D2C retailers face are evident in the companies' slowing growth rates. We estimate that digitally native brands' D2C ecommerce sales growth in the US will slow to **18.2%** this year, a marked decline from **40.0%** just two years ago.