MAY 09
Zak Stambor

Layoffs are coming as companies focus on profitability

Article

The news: A wave of **cost-cutting measures**, including layoffs and job freezes, is hitting the retail sector.

- The announcements are coming amid signs of softening consumer demand; **April US general merchandise unit sales were 7% lower than a year ago**, creating a 1% decline in sales revenue, according to The NPD Group.

Copyright © 2022, Insider Intelligence Inc. All rights reserved.

- The situation has driven retail companies—including **GoPuff**, **Peloton**, **Thrasio**, and **Reef**—and other tech companies to rethink their staffing levels as the changing economic conditions force them to shift focus to turning a profit.

How we got here: With consumers flush with cash thanks to fewer ways to spend their money and an influx of stimulus cash, many retail and tech companies experienced a huge boom earlier in the pandemic that drove them to rapidly add staff to keep up with demand.

- **Amazon**, for example, nearly doubled the size of its workforce over the past two years. As a number of fulfillment center employees went on COVID-19-related leaves, the company hired new employees to cover those absences.
- But as absences subsided, it quickly went from being understaffed to being overstaffed, which resulted in lower productivity that cost Amazon about $2 billion, said CFO **Brian Olsavsky** during the company's earnings call.

A stark contrast: Cost-cutting moves offer stark counterexamples to a still-tight labor market in which many companies continue to struggle to hire enough workers.

- The two situations are related as the tight labor market has boosted wages, which, in turn, has contributed to rising inflation.
- To curb inflation, the **US Federal Reserve aims to gently pump the brakes on the economy** by steadily increasing interest rates throughout this year (including a 50-basis-point increase last week). That increases borrowing costs, which leads companies to hold off on investments.
- At the same time, many retail companies are dealing with ongoing supply chain challenges and rising raw materials costs, which eats into their bottom lines and causes funding to dry up.

A tale of two growth trajectories: Slowing demand and growing digital ad and borrowing costs have quickly hindered many retailers' growth trajectories.

- Take direct-to-consumer (D2C) ecommerce, where there's a sharp dichotomy between established brands such as **Nike** and digitally native brands such as Peloton, **Warby Parker**, and the retail brands that Amazon aggregators like **Thrasio** purchase. While digitally native brands used cheap capital to build their businesses, they're having trouble adapting to the new landscape. That helps explain why **D2C ecommerce sales of established brands are now growing faster than those of digitally native vertical brands (DNVBs)**, per our estimate. Last year, established brands grew their D2C ecommerce sales 27.2%, significantly outpacing the

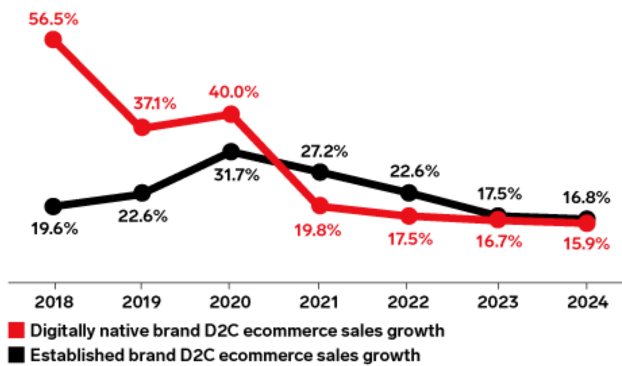
Copyright © 2022, Insider Intelligence Inc. All rights reserved.

DNVBs' 19.8% growth rate despite larger baseline comparisons, and we expect that trend to continue in 2022.

- The situation has driven Thrasio to lay off about 20% of its staff, Peloton to cut 20% of its corporate workforce, fast-delivery startup GoPuff to lay off 3% of its employees, and ghost-kitchen startup Reef to shed 5% of its workforce.
- More layoffs and hiring freezes are likely to come in retail and other sectors. For example, **Uber** said it is cutting back on spending and will treat hiring as a privilege, while **Meta** ordered a hiring freeze amid slowing growth.

US D2C Ecommerce Sales Growth for Established Brands vs. Digitally Native Brands, 2018-2024

% change



Note: includes products sold by consumer brand manufacturers that sell their products directly to consumers online 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, March 2022

274277 eMarketer | InsiderIntelligence.com

The big takeaway: It has been some time since there was a significant cost to borrowing money.

- As those costs rise, companies have no choice but to pay heed to their bottom lines.

Copyright © 2022, Insider Intelligence Inc. All rights reserved.