DTC State of Play in 2022



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About Relo

CHAPTER 1

The battle against rising CAC

We've been powering hundreds of the world's best consumer DTC brands for the past 2 years at Blueprint, so have had the chance to see what they're up against, what's working, and how we can ultimately gain insights into how we can support them better.

Coincidently, during the same period we've lived through unprecedented eCommerce growth and penetration into traditional retail. However, times are changing. As the world balances on the edge of a recession and the hundreds of thousands of eCommerce brands who were born from the pandemic, and only know a world where revenue was up and to the right, now have to adjust to the harsh reality of decreasing growth rates, lack of consumer spending, and ambiguity of the long-term viability of the DTC business model.

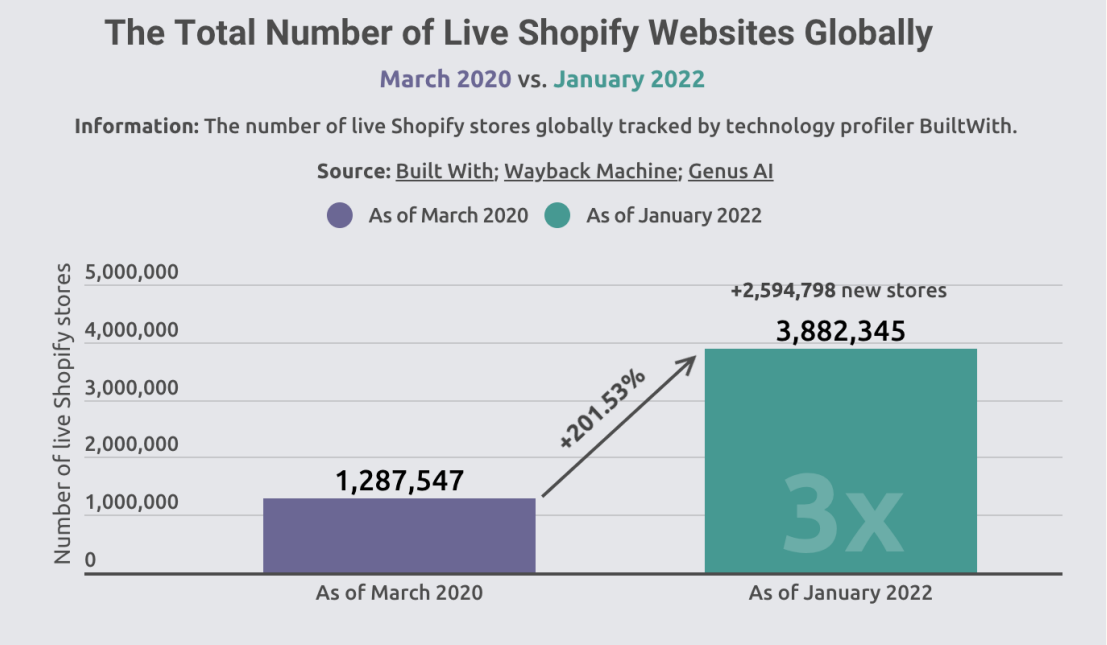


Image Source: ***Common Thread Collective***

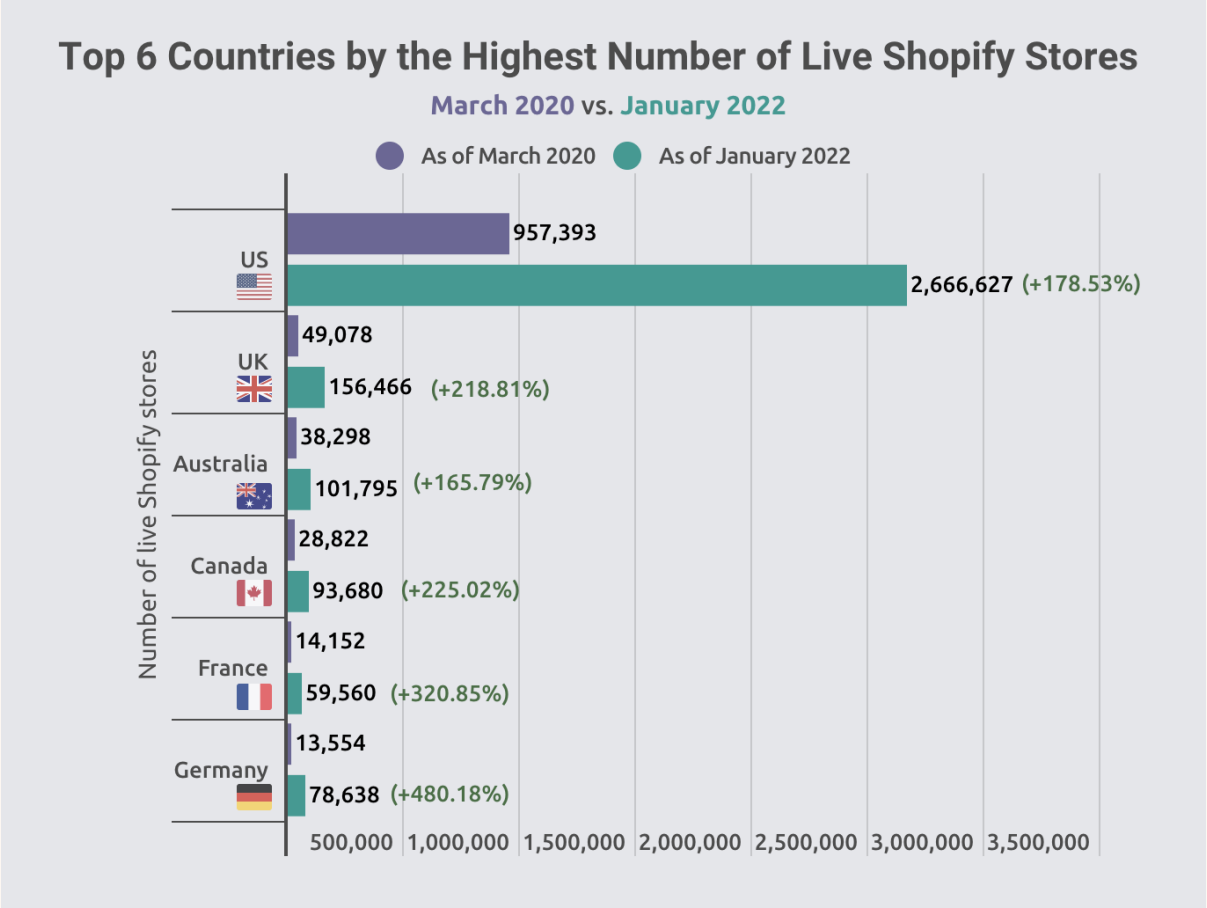
The Twittersphere, as usual, is acting as a megaphone for the doom and gloom of what's (likely) to come in DTC. However, having had a front-row seat over the last 2 years supporting DTC brands, it's important to not get lost in the noise and instead break apart the data in a way that's useful and actionable for DTC brands. Before we can adapt and find a solution, we need to know what we're up against. Here's our deep dive on the drivers and impact behind spiraling CAC, slowing of VC funding, and unpredictable supply chains.

CAC is out of control

We all know CAC has been on the rise for what feels like forever, however, we've recently increased pace towards the unsustainable with higher-than-ever competition and iOS changes. These twin factors have created a big dent in DTC brands' ability to acquire customers in 2022. 2.5m new stores were minted on Shopify from March 2020 to January 2022 alone, representing a 200% increase. This creates hyper-pressure to stand-out and acquire customers, when you're simply going to battle with double the amount of competition you did before.



Created by Relo, using data from BuiltWith



Created by Relo, using data from BuiltWith

Not only is competition making things challenging, but the changes to iOS 14 decimated many marketers' strategies to acquire customers (here's a good breakdown from Shopify). This was a catalyst for a whole host of problems. The changes in early 2021 required apps to get user permission before tracking their data across apps or websites owned by other companies (the data that's used to personalize advertising). This essentially meant that where users previously only had to opt out, now they have to opt in. By July 2021, only 17% of users had chosen to opt in.

"Sales were significantly impacted when the iOS changes occurred, despite planning for changes. CPA didn't improve for a long time. We diversified swiftly - testing DM, opening new retail channels and focusing on brand partnerships."



Rebekah Brown, Founder
MPowder

Because of these changes, CAC is rapidly accelerating to levels that make basic unit economics unsustainable, and call into question the DTC model itself. Data from Adspresso shows that because of the increase in competition, Facebook CPC (Cost per click) increased from ~ $0.29 at the start of 2021, to $0.50 towards the back end of the year (representing a 72% increase). We've got to take this with a pinch of salt as advertising costs always increase towards the end of year and holiday season, but there is little to suggest this increase is going to change.

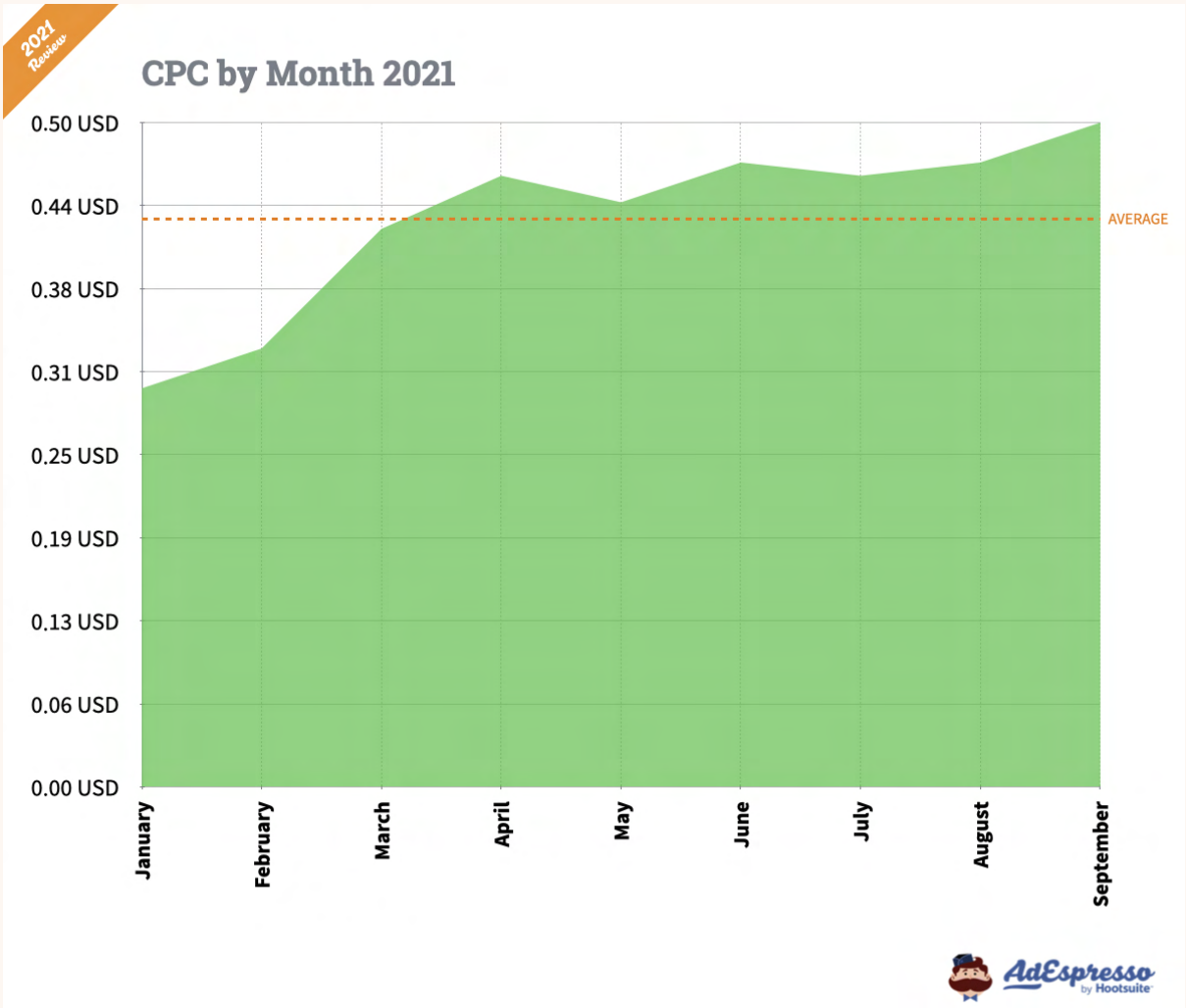


Image Source: Hootsuite

DTC CAC Impact

So, what is the practical impact here for DTC brands? If we make some basic assumptions on AOV, margin, and CAC, we can start to gauge the impact and how we can tackle it...

Year	AOV	Margin	CAC	Profit on first order	Product to sell to turn $1 of profit
2021	$40	60%	$20	$4	$35
2022	$40	60%	$30	-$6	$52
			50% Increase		

CAC model created by Relo.

The above model shows that in 2022, with a CAC increase of 50% on a $40 AOV product with 60% margins, you'd be underwater on a customer's first order and thus require to sell them the equivalent of $52 of product to turn even a $1 profit. This represents a fundamentally different story to the year prior. Cuts Clothing CEO, Stevan Borelli, recently wrote this thread on the impact of this CAC increase for DTC brands and how to navigate it.



This analysis makes for a very black and white view of what's required to combat this problem - either decreasing CAC or increasing LTV (or both!). Of course, increasing margin could also be a lever here, but as we'll see as we move down through the other factors at play in this article, that may not be possible. To decrease CAC, the focus must be well and truly on experimenting (cheaply) and optimizing rapidly. Here's a great thread from Obvi Co-Founder & CMO Ashvin Melwanii, whose faced these problems head on and experimented with how to continue to grow profitably.



Additionally, this shows the critical need to drive repeat revenue from existing customers - as fundamentally the unit economics of acquisition don't add up. One of the most effective ways to insulate your DTC brand and mitigate the impact of these changes on your business is to have a solid strategy and understanding on how to increase the value of a one-time customer overtime and continue to grow without having to invest in paid advertising. This has always been a lever to pull, yet perhaps hasn't been in the spotlight quite as much as right now when cheap paid advertising took center stage.

Getting customers to reorder from your DTC brand is hard work, check out our blog on how to increase your post purchase flows.

DTC funding is drying up

As DTC's unit economics become increasingly scrutinized, investors are distributing capital with greater frugality to the few that have mastered the profitable customer journey despite their CAC challenges. As Modern Retail wrote about back in January, investors are now much less tolerant of DTC brands running at a loss for long periods of time. The recession is forcing VC's and angels to scrutinize where they'll receive their returns if the DTC bear market doesn't change over the next 18-months. We can see from Pitchbook data that the funding deployment for eCommerce deals over past few years is returning back to "normal" levels after the 2018 boom:

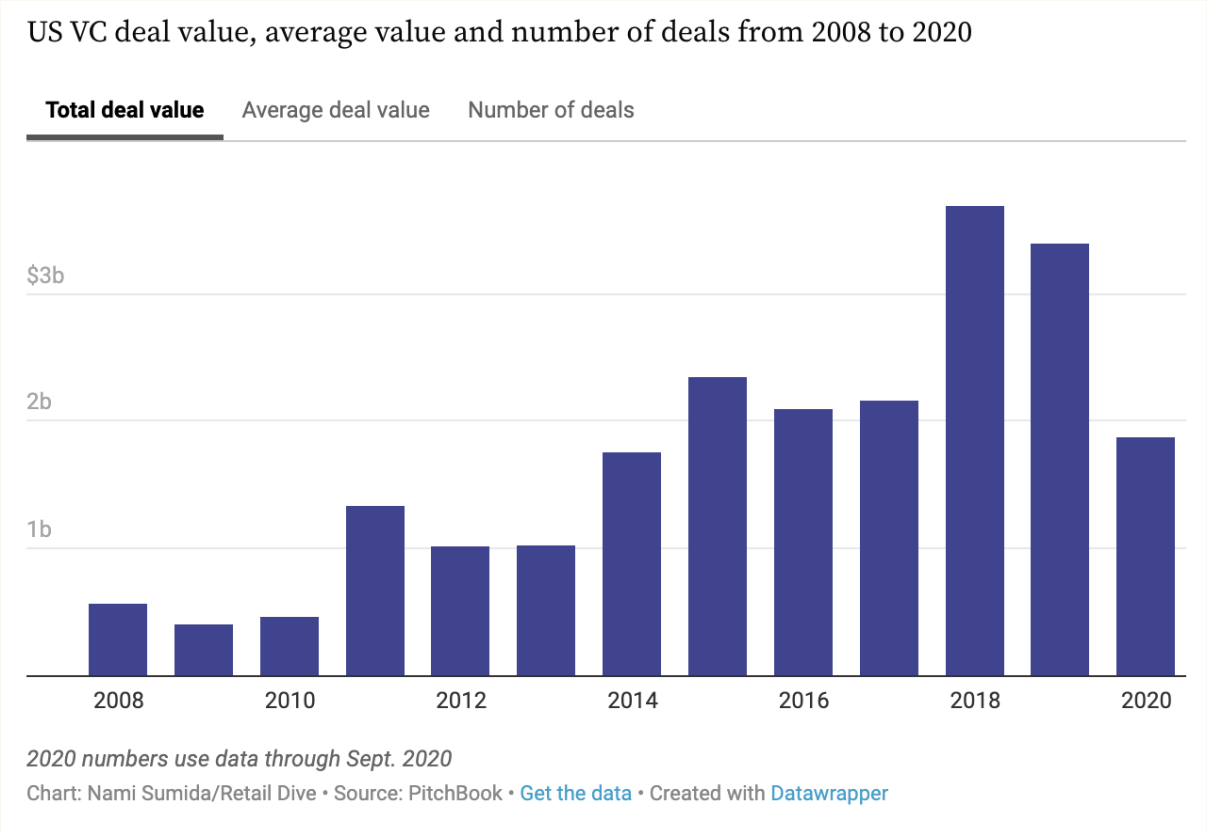


Image Source: Pitchbook

However, despite this slow-down in VC funding, this pessimism doesn't mean there isn't a way to grow rapidly or attract funding as a DTC brand - we just need to isolate the key ways for DTC brands to navigate the tide.

The core outcome is really two-fold. Firstly, less companies will get funded as a result of less available capital in the market. Of these companies, the ones that do receive funding will have exemplary unit economics vs their VC funded counterparts of yesteryear. These DTC brands that receive funding will have mastered CAC:LTV ratios, have significant profit margin and a huge TAM to go and acquire as a result. After all, DTC as a business model started as a result of the promise of a huge global TAM that had a requirement to access products easily. Furthermore, this change will actually benefit many of the DTC brands operating that previously were labeled as "unsexy" or "boring" because they focused on positive unit economics over pastel branding - as they'll have the lion's share of investors' capital.

Secondly, this change will force DTC brands into focusing on building their business without the requirement of funding. Much of the modern narrative around DTC brands has been that it requires vast amounts of funding to grow and become profitable - with that narrative now being called into question. Examples such as Ridge Wallet and Cuts Clothing have thrown out the VC-funded playbook and built category defining DTC brands without the life-support of their next funding round.

Regardless, if you're a DTC brand looking at raising a funding round or focusing on profitability and bootstrapping, the strategy to achieve both is essentially the same and links directly to the first problem we raised in this article. Optimize CAC and focus on repeat revenue. By making your customer journey from acquisition through to retention profitable, you'll fundamentally be in control of your destiny and decide whether you want to pull the lever of raising capital and increasing growth of that profitable funnel, or continuing to bootstrap and spit out profits. If we expand on the model from earlier, even a small increase of repeat revenue (LTV) can have huge impact on profitability almost immediately.

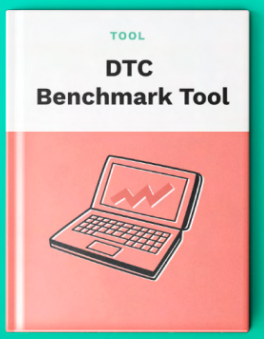
Impact of LTV on profitability

Year	AOV	Margin	CAC	LTV	Profit on first order	Overall Profit	Product to sell to turn $1 of profit
2021	$40	60%	$20	$56	$4	$14	$35
2022	$40	60%	$30	$70	-$6	$12	$52
			50% Increase	*25% Increase*			

Worried about your repeat revenue rates? Discover how you stack up against the competition with our benchmarking tool that analyses key DTC metrics such as churn, LTV & AOV.

Discover how you stack up against the competition.

Try our benchmark tool



Supply chains are more fragile than ever

Whilst there is an element of control over CAC increases and funding availability in the DTC market, there is much less control over the physical creation and movement of goods that underpin entire markets, categories and businesses. Whilst shipping prices are (slowly) starting to settle, in June of 2021 the cost of shipping goods from China to the West Coast of the US hit record highs of $10,522, representing an increase of almost 547% from the average across the prior 5 years. Over the last 12-months we've seen glimpses of hope as prices decreased, with the Drewry Index showing a slightly more palatable $7,625 in June 2022:

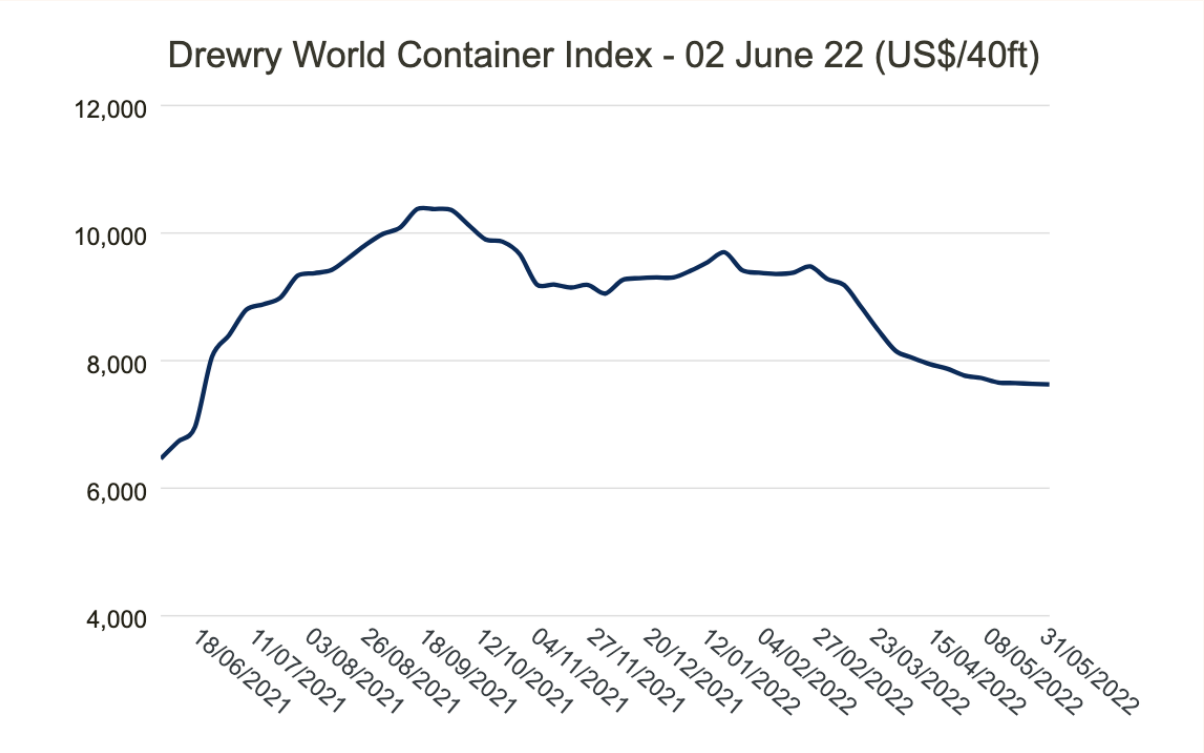


Image Source

Not only have shipping costs spiraled, there has also been an increase on timeframe of moving goods from A to B. Drewry reports that a sea container can now take up to 60-days to move from China to New York or the West Coast (vs < 20 days in 2019). This change is down to a number of far-reaching macro factors that impact cost and time of shipping, such as lack of truck drivers, increased demand, and even the war in Ukraine (amongst others). It's also impossible for DTC brands to predict what will happen, as there is such variability of time and cost that forecasting is guess-work at best.

The struggle for DTC brands to adapt to changing supply chain conditions feels a little more "real" than the impacts of CAC and funding landscape that are behind the veil of a laptop. However, this makes them uniquely tricky to deal with. If we assume that with correct planning DTC brands can overcome the delays in container shipment, the focus then moves to dealing with the price increases. The main impact to shipping price increases is that it eats into a DTC brands profit margin, which has knock on effects of affordability of CAC.

To conquer these price hikes, a DTC brand essentially has 3 levers to pull. Without sounding like a broken record, 75% of the levers are prominent throughout this piece to combat the other macro changes:

- Increase prices to absorb the cost increases
- Decrease CAC to allow for increased margin
- Increase LTV to increase revenue per customer

It's likely that a combination of all 3 of these is required to maintain a profitable equilibrium. For example, if a price increase is not met with a clear strategy to decrease CAC and increase LTV, the impact will be superficial. Much like many of the other problems faced throughout this piece, going back to the fundamentals of how you generate demand and increase value of customers overtime as a DTC brand are the best ways to insulate from the choppy seas ahead.

Conclusion

Not only are all of these problems all appearing at a similar time, they are also interlinked and impact each other in varying degrees. Increases in competition drives CAC through the roof, which is compounded by shipping price hikes, which leads to unsustainable unit economics without additional funding, which worries investors and causes them to pull the reins back on deployment of capital - and around again we go.

It's in times like these that it's important to go back to the basics of unit economics of how you acquire a customer (CAC) and how much revenue they are worth to your business (LTV). There is no silver bullet to mitigate these factors other than a core focus on what's really important for long term survival. The difference between operating a DTC brand over the past 5 years has changed dramatically, and thus the operating principles behind these brands need to adjust as a result.

Discover how to calculate repeat purchase rate

Try our calculator



CHAPTER 2

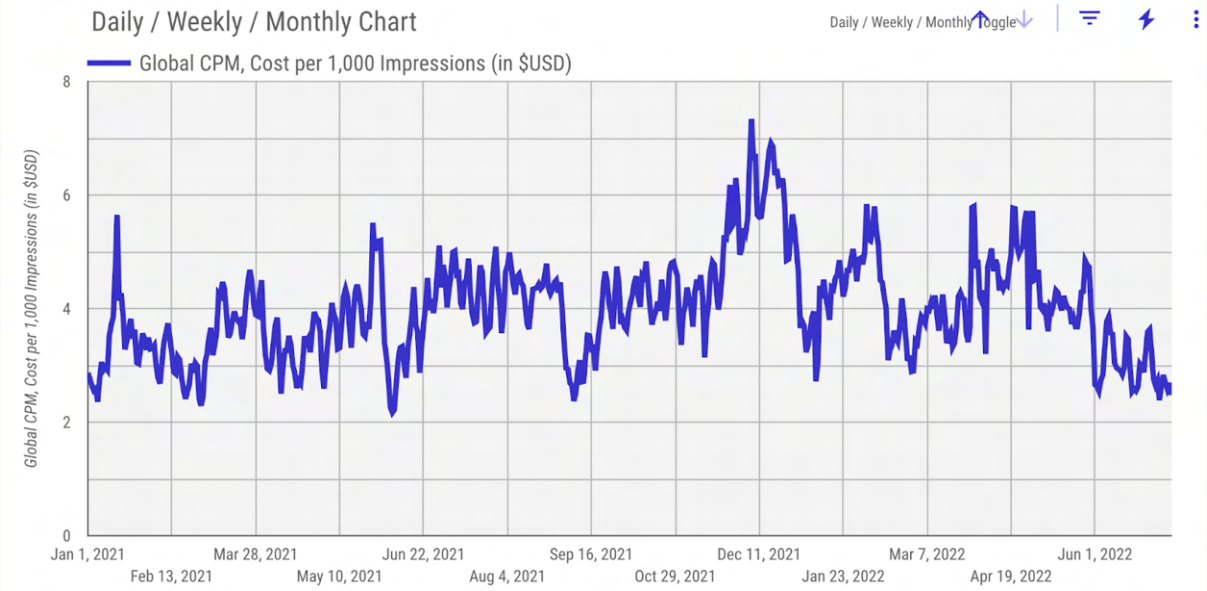
What’s next for iOS?

The Apple iOS 14.5 privacy updates of 2021 dealt a huge blow to the Ecommerce industry. Suddenly iPhone users were given full agency over whether to allow the likes of Facebook to share their data, meaning marketers couldn’t identify, track and target them. Great news for customers, bad news for business.

As Apple iPhones hold a 57% share of the US market and just 4% of US iPhone users decided to ‘opt in’ to app tracking (during the initial roll out), advertising across Facebook and Instagram became much less effective. Some brands reported a 75% drop in Facebook traffic. At the same time, Mail Privacy Protection updates prevented email marketers from knowing when users opened emails, rendering measuring the effectiveness of campaigns hopeless.



iOS 14.5 - a year on



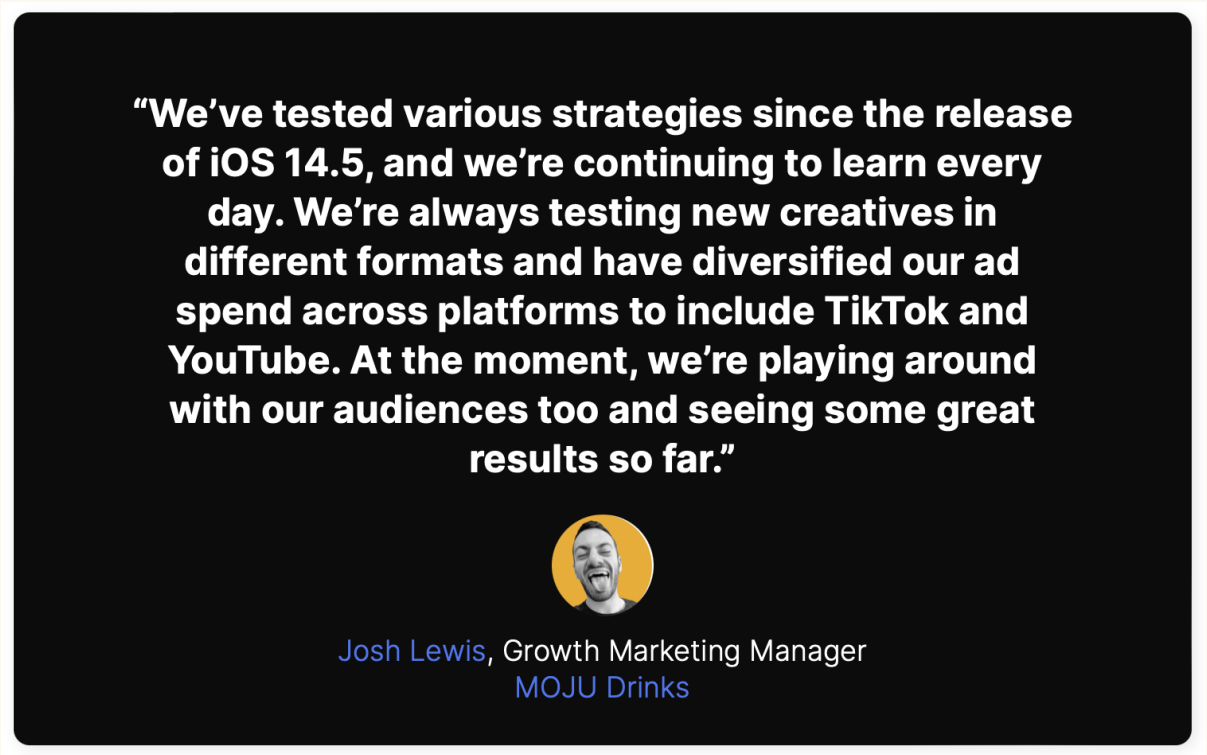
Source: *Gupta Media*

A year on from iOS app tracking transparency, the picture is slightly different. At the time of writing, the opt-in rate for US iPhone users hovers at around 37%, up 23% from the initial roll-out. Advertising costs per CPM (cost per thousand impressions) currently stand at a more affordable $2.48 compared to a staggering $6.67 on December 6th 2021.

However, it's important to note this graph refers to total impressions, not acquired customers. CAC (customer acquisition costs) continue to soar which we detailed at length in a recent piece: The battle against rising CAC.

Ecommerce brands have had no choice these last 12 months than to rise up from the advertising ashes with a new strategy, diversifying everything from the channels they spend money on (Hello, Tik Tok!) to the ad creatives they produce. One-size-fits-all static ads have been replaced by high impact video creatives targeted towards a much wider net.

Josh Lewis, Growth Marketing Manager at DTC brand, MOJU Drinks says,



What's next for iOS?

Since the iOS 14.5 updates, Apple has continued to roll out more and more updates. The good news is that the latest iOS 16 drop has some features that help, not hinder, Ecommerce brands.

When is the new Apple iOS 16 coming out?

The beta version launched on July 11th 2022, but the official iOS 16 release date is expected to be in September.

We asked Will Tickle, Director of Social Nucleus to share his top line thoughts on iOS 16 and what it means for Ecommerce brands.

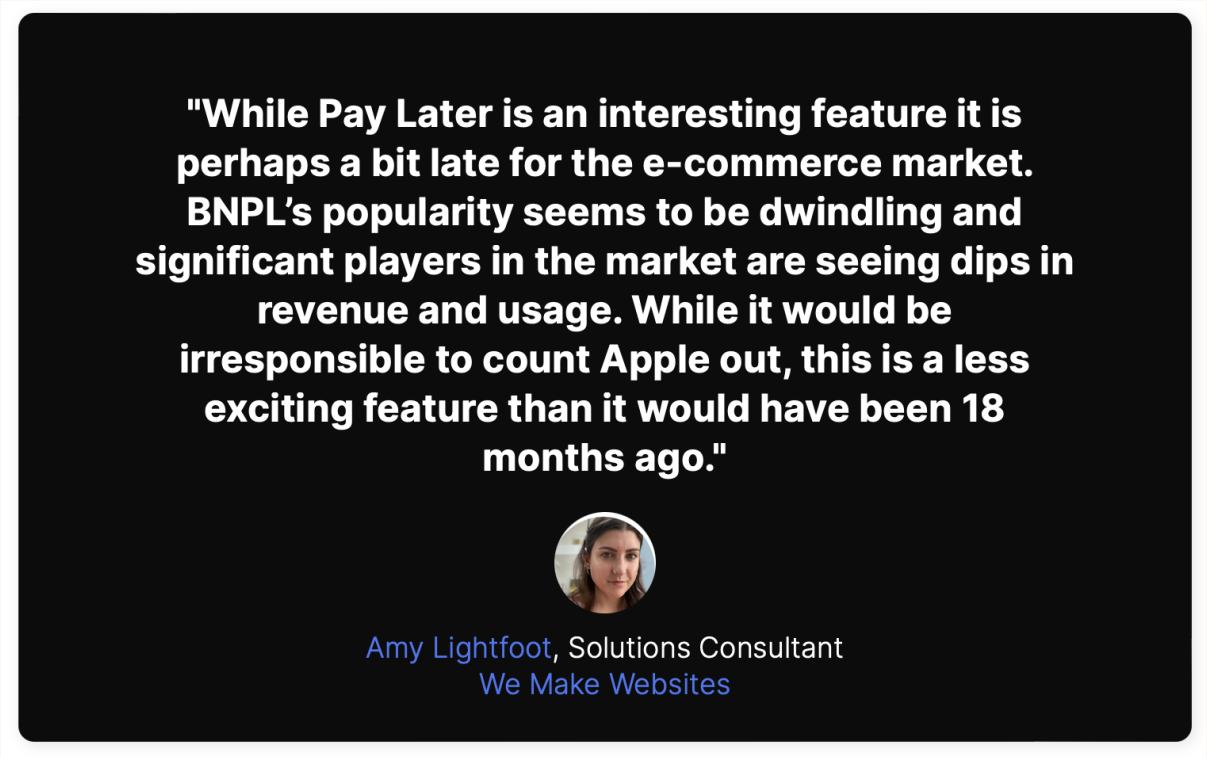


What are the key Ecommerce updates for iOS 16?

1. Apple Pay Later

In the last few years, the emergence of ‘pay later’ brands such as Klarna and Clearpay has helped price-conscious customers to spread payments over a longer period, and it’s helped Ecommerce brands convert them. Klarna for instance allows you to spread payments across a month or 3-month period, splitting a big upfront cost into smaller chunks. Now, Apple has jumped on the bandwagon offering to split costs into 4 over a 6 week period. This is good news for Ecommerce brands as they get paid immediately while Apple takes on the financial risk.

Amy Lightfoot, Solutions Consultant at We Make Websites isn't convinced of the long-term merits in the current climate though. She says,



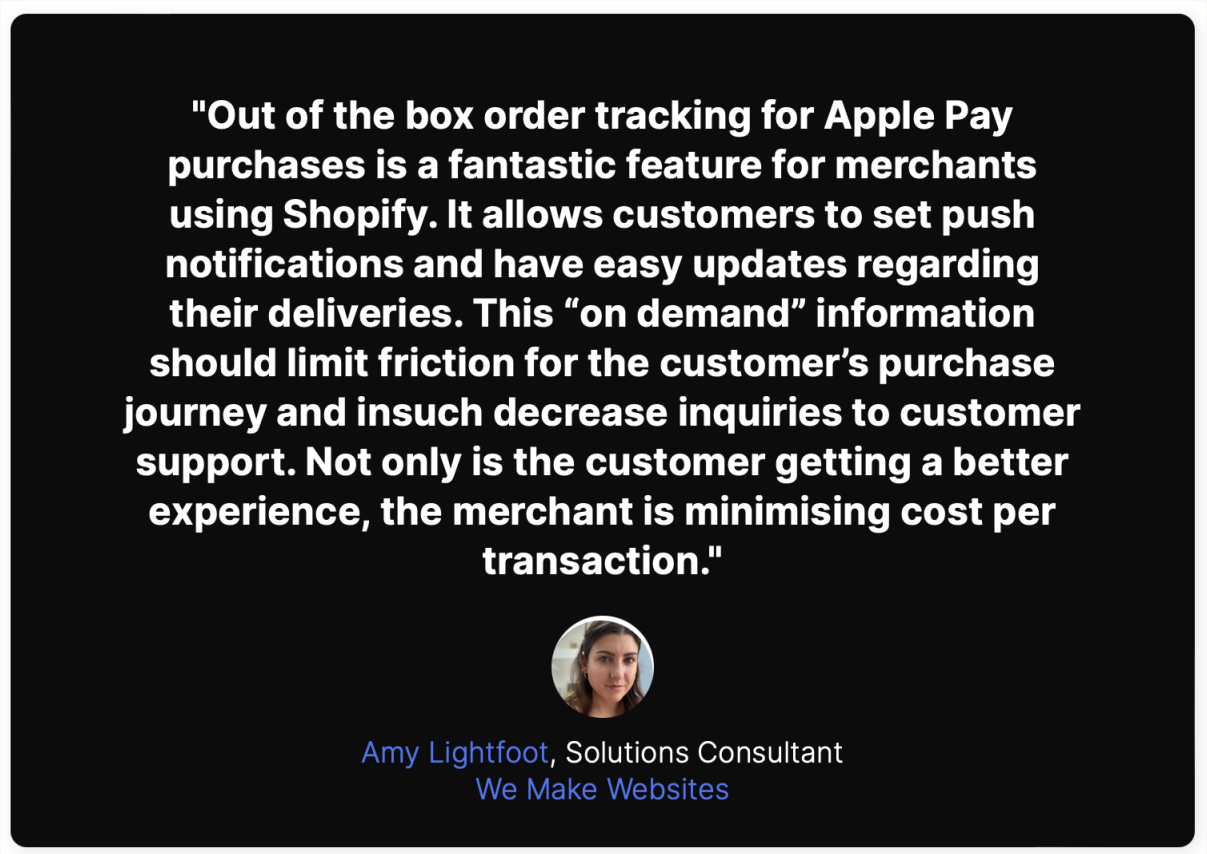
2. Web push notifications are supported on Safari

Not to be confused with app notifications, web push notifications are alert-style messages which allow brands to communicate with users on their website in real-time. Even when users leave your site, you can still send them notifications. This enables app-less Ecommerce brands to reach users on multiple devices. On mobiles, these display much the same as app notifications, but on desktops these appear in the bottom right corner of the screen. It's worth noting that on desktop, users do have to opt-in. However as there's no third party cookies or data collected, web push notifications fall in line with Apple's privacy policy.

3. Apple Shipping Tracking

Customers who use Apple Pay will be able to track orders and receipts directly in wallets, reducing the need to keep up with brand shipping communications. This should ease the pressure on CX teams who are most commonly asked ‘where’s my order?’

Amy comments,



The death of third party cookies continues

While these latest iOS updates offer some light relief to Ecommerce brands, the death of third party cookies continues. Google Chrome has announced they’ll block third party cookies by the end of 2023, making targeting and advertising even more difficult.

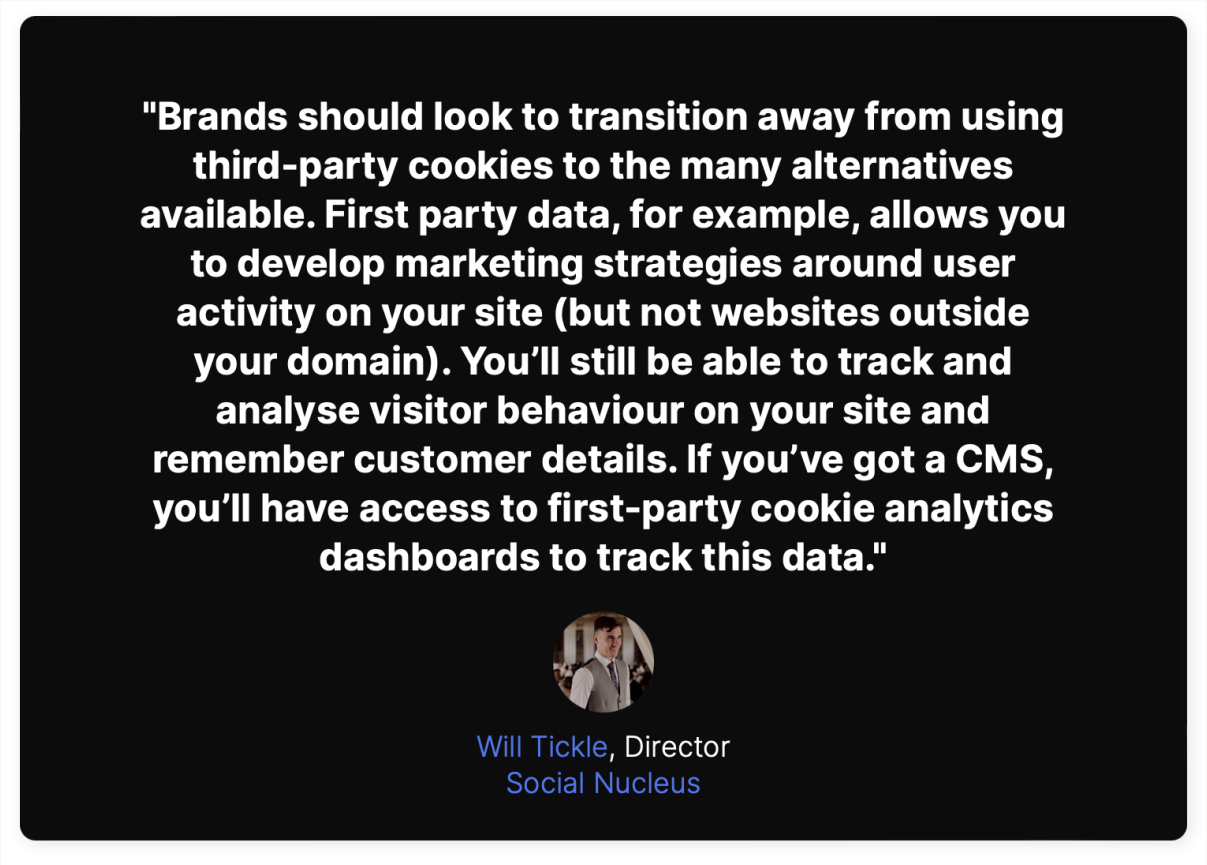
What should Ecommerce brands do to weather the storm?

1. Accept that first party data is the future



As the crackdown on third party data continues, concentrating on first party data is believed to be the most effective method to futureproof your Ecommerce business against further updates and changes.

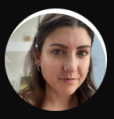
Will Tickle, Director at Social Nucleus says,



Amy Lightfoot of We Make Websites agrees. She says,

"While the banning of third party cookies was worrying for many people in e-commerce, I think it is less of a death knell than anticipated. While third party data was seen as essential for a while, the trend seems to be moving away from hyper tailored marketing. Consumers are starting to see incredibly tailored marketing campaigns as intrusive and in some cases creepy."

"Brands are already collecting a lot of information about purchasing patterns and should focus on leveraging that information. For higher volume brands, AI powered recommendations provided by companies like Algolia can take on the heavy lifting of sifting through the data. For lower volume brands investing in tailored recommendation services such as Yotpo or Nosto allows for dynamic recommendations based on what is viewed on the site already. "



Amy Lightfoot, Solutions Consultant
We Make Websites

She continues, "While these updates are likely to be challenging for some in e-commerce it is an opportunity to re-evaluate how you interact with consumers and provide them with the best experience, whilst still respecting their privacy."

First party data is information that a business holds and owns on its current customers. For example, a sign-up quiz hosted on a brand's website would yield data that the brand could store and use to target customers. It removes the need for a ‘middleman’ and makes the brand more self-sufficient. Ecommerce first party data includes, but is not limited to:

- Browsing history
- Purchase history
- Form conversion
- Shipping and billing (location)
- Quizzes
- Feedback and reviews
- Email segmentation

In many ways first party data is more valuable than third party data as it’s generated from your current customers. Therefore this data is high-quality, cost effective (you don’t need to pay someone else for it) and reliable. You control first party data, so you don’t need to worry about waking up one day and the rug being pulled away.

Will also recommends making use of zero party data as a way to work with what you've got. He says,

"You can also make use of zero party data (data customers voluntarily share with a brand), such as the use of customer surveys to target products and ads to their needs and preferences. Additionally, you can make use of older strategies like contextual advertising, which allow you to disseminate PPC ads on websites ranking for specific keywords that match your products/services. You'll also still be able to make full use of targeted ads on social media - these ad tools can still target your core demographic based on location, age, etc."



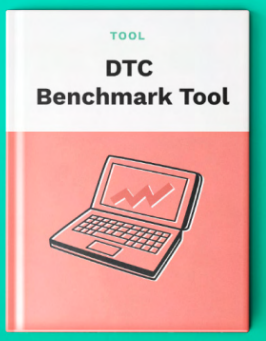
Will Tickle, Director
Social Nucleus

2. Drive more revenue from existing customers

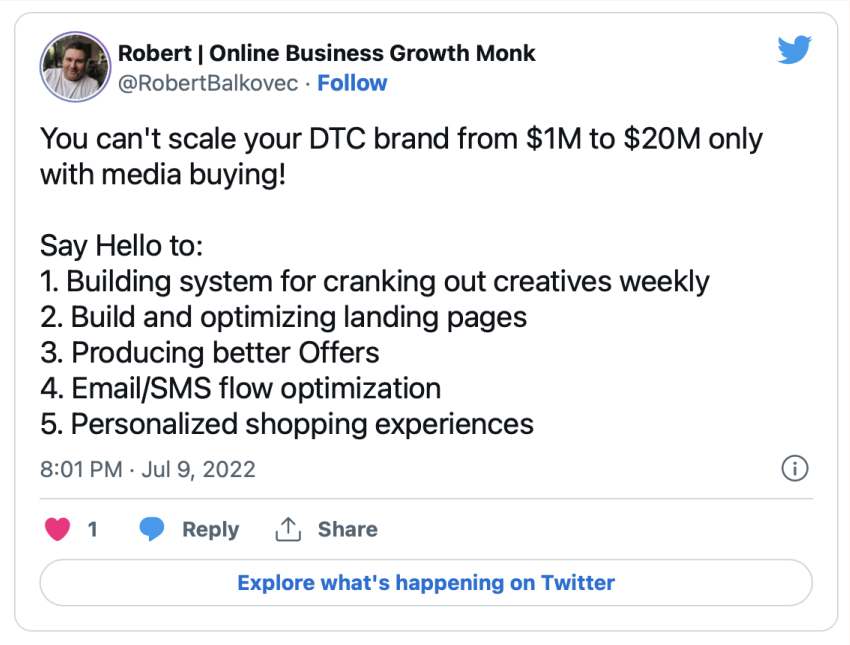
Unless you're just starting out as a DTC Ecommerce brand, the likelihood is you've already got a large database of potential customers. Instead of always chasing the new and shiny with various advertising spend, it makes sense to work with the customer base you've got.

Discover how you stack up against the competition.

Try our benchmark tool



Conduct a full audit of the end-to-end user experience - it's likely there's plenty of gaps and holes to fill. After all, DTC competition is at an all-time high and only those brands offering the best shopping experience will survive this volatile market.



A staggering 7 out of 10 customers buy from a brand once and never come back. Imagine the hike in revenue if those 7 lapsed customers returned for a second and third purchase. Here are 3 simple and effective ways to start increasing that number straight away:

3. Target more effectively

While targeting accuracy might have dropped off a cliff when it comes to Facebook advertising, there are levers brands can pull when it comes to email marketing. Predictive data has become very sophisticated and there are now market solutions which sync with Klaviyo and analyze all customer data to make the best possible predictions around repurchasing times.

4. Optimize email flows

Do you have effective flows in place to funnel customers at every stage of the journey? For instance, 70% of carts are abandoned but you'd be surprised how many brands fail to set up cart abandonment flows.

5. Make repurchasing frictionless

Poor UX is listed in the top three reasons why customers churn. Take a look at the repurchasing experience. Are you driving customers to the same old clunky landing page? Do customers have to faff around with log-in details to buy again? All of these barriers to purchase can be streamlined.

Conclusion

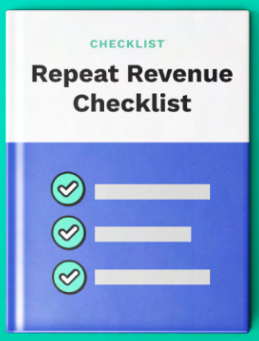
Although the iOS 16 update offers some beneficial features for Ecommerce brands, time's up for third party cookies. Google Chrome is planning to block third party cookies at the end of 2023 - a cookieless future looms for Ecommerce. Those looking to build a resilient DTC brand need to turn their attention to their own analytics, harnessing the use of first-party data to drive conversion and LTV.

At Relo, we're laser focused on getting existing customers to buy again, try a subscription and stay on subscription. Discover how we're helping the world's best DTC brands generate 17 x more repeat revenue.

Looking for tactics to drive more revenue?

Growth tactics, quick wins and examples to drive more revenue from existing customers.

Try our checklist

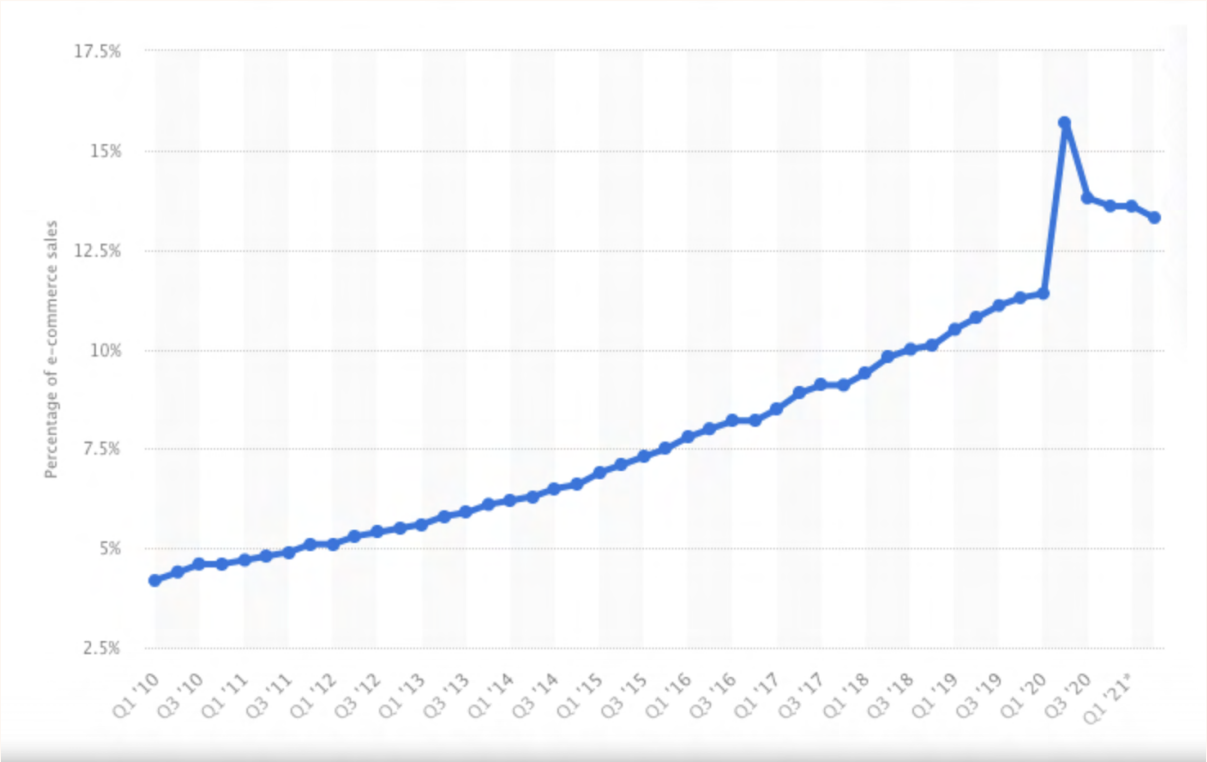


CHAPTER 3

DTC competition reaches all-time high

The DTC market has exploded in the last two years with major players like Nike joining the race. The number of Shopify stores has grown 200% since March 2020. To put this in perspective, that’s 2.5 million stores - the population of Los Angeles. Today, we're unpacking the current state of affairs and exploring DTC tactics for brands to stay ahead of the competition.

Pandemic boom

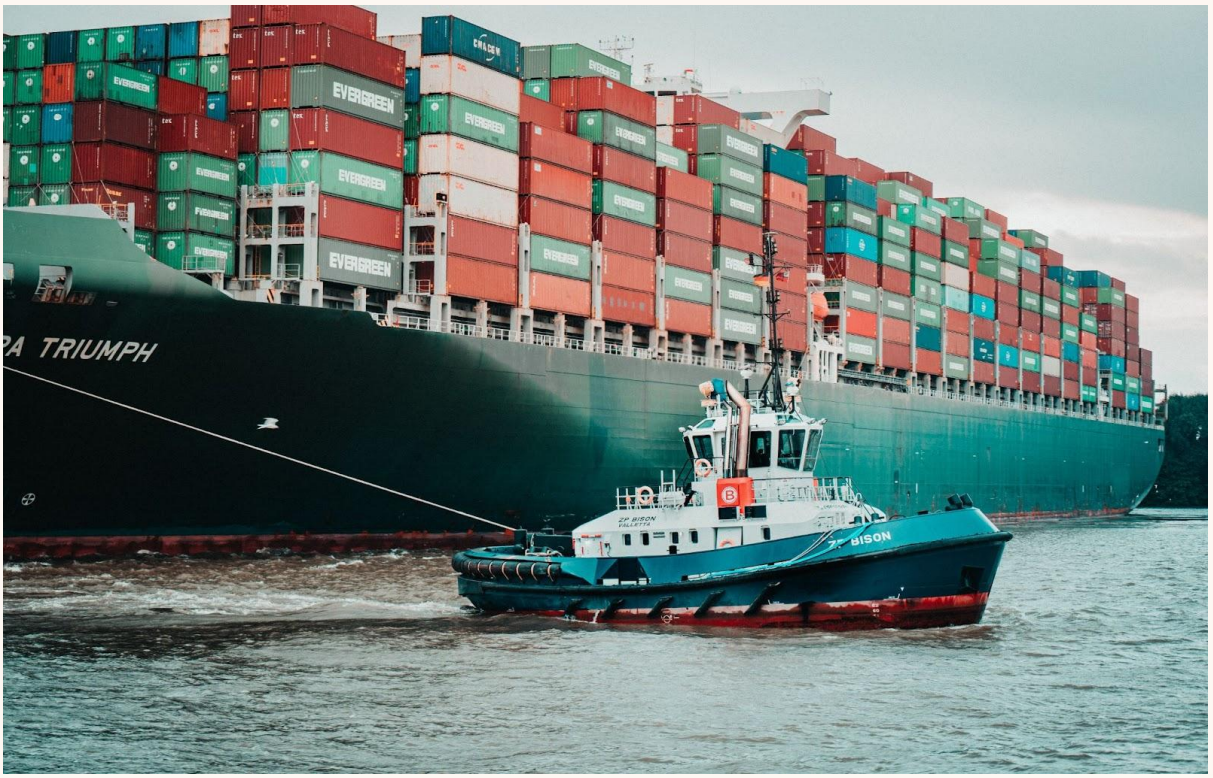


Source: *Smart insights*

During the pandemic lockdowns, DTC Ecommerce and subscription brands thrived. With restaurants and shops closed, consumers with disposable cash could go online to get their usual treats delivered. As for replenishable goods such as speciality coffee, subscription brands such as UK roastery, Pact Coffee rushed to fill that niche. Commenting on this specific period for the company's annual Transparency Report, CEO Paul Turton said,

"With coffee lovers resigned to their residences, the demand to enjoy speciality coffee at home skyrocketed. The business grew 46% and remarkably, we didn't have to make any redundancies."

2022 gloom



The Suez Canal is just one news bulletin in a long line of recent supply chain disasters

Two years on, the DTC Ecommerce picture is a little different. Post-pandemic life has resumed and with it a litany of problems including a cost of living crisis, global supply chain nightmares and market volatility. Consumers are tightening their belts and cutting down on luxuries. It shows in the numbers, Ecommerce spending plunged 7.9% in March.

Despite this dip and the various problems, Ecommerce spending isn't set to stall long-term. In fact, it's predicted that by 2025, the industry will have ballooned to $7.4 trillion, up 50% since 2021. By and large, the biggest problem DTC brands face is the sheer scale of competition. It's not just scrappy start-ups with cash injections on the scene anymore, corporate giants like Nike have joined the race to be among the world's biggest DTC brands.

Household names are pivoting to DTC, and struggling



Nike has doubled down on its direct-to-consumer efforts

In the last 4 years, Nike has been quietly pivoting to a DTC model, moving away from retail and concentrating on direct sales. But just 4 months on from the official announcement that Nike was on a mission to become one of the fastest growing DTC brands, sneaker staple analysts have come out publicly and announced "DTC isn't all it's cracked up to be."

Nike analysts have cited ‘additional costs’ as being the culprit. While Nike didn’t specify what those costs are, we can take an educated guess and assume paid advertising is a big chunk. It's no secret paid advertising is a tough nut to crack right now, with CAC rising beyond belief. If household names like Nike are struggling, the rest of the DTC industry is surely feeling the effects too.



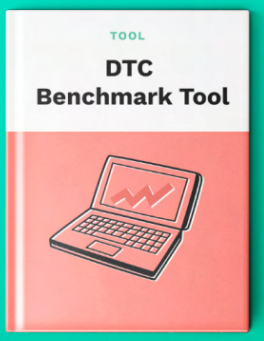
Nike has pivoted to a DTC model

Adidas and Under Armor have also announced they’ll be shifting away from retail and wholesale in the following months and years in a bid to carve out a DTC future.

Fashion and apparel make up 32% of all US Ecommerce sales, but food and drink follows hot on the heels with 16.7% of US online spend concentrated in this area.

Discover how you stack up against the competition.

Try our benchmark tool

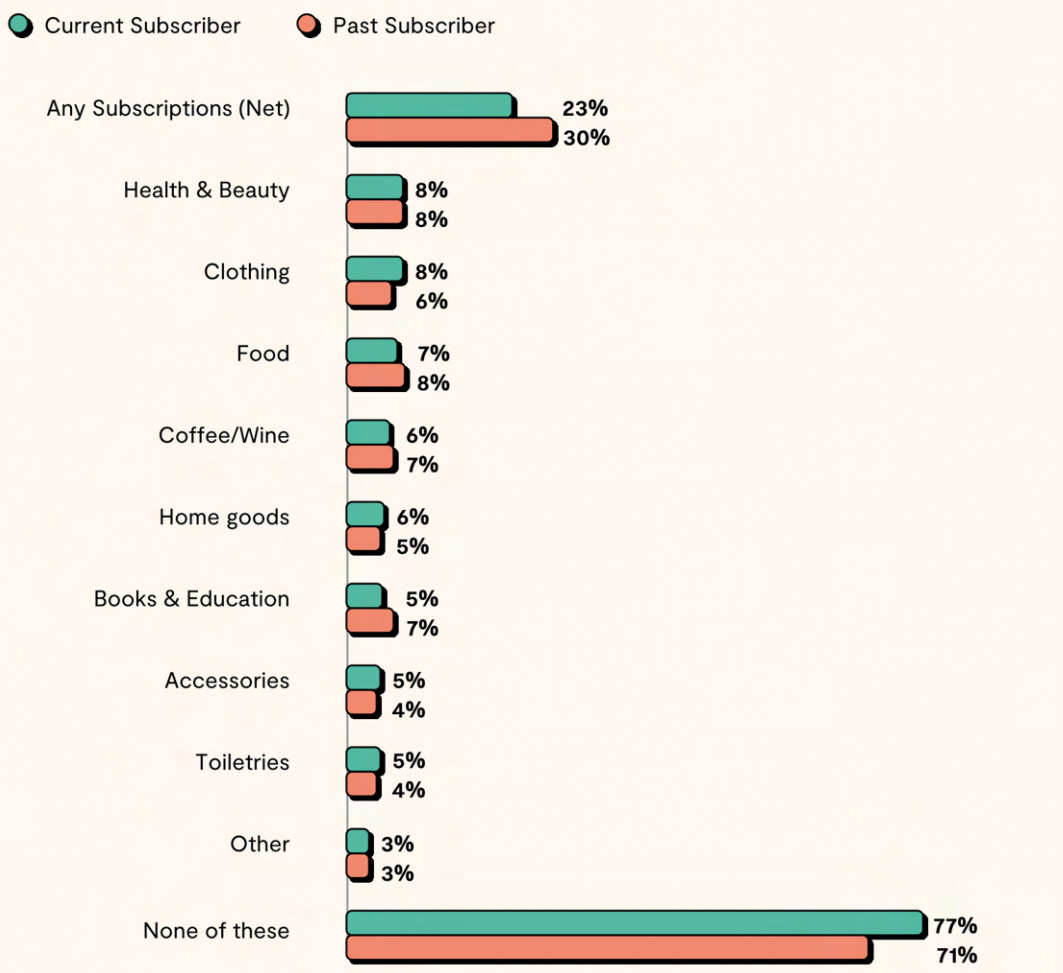


Only the most remarkable will survive



The writing is on the wall: DTC brands are ten a penny and the market is reaching saturation point. More competition often means less profit and you may be questioning 'are DTC brands profitable?' 75% of US DTC brands make less than $1 million in online sales.

Of these US DTC brands, 27,000 are believed to be subscription brands. This sounds promising as recurring revenue is a great thing for growth, but when you dive into the churn rates the picture looks more alarming.

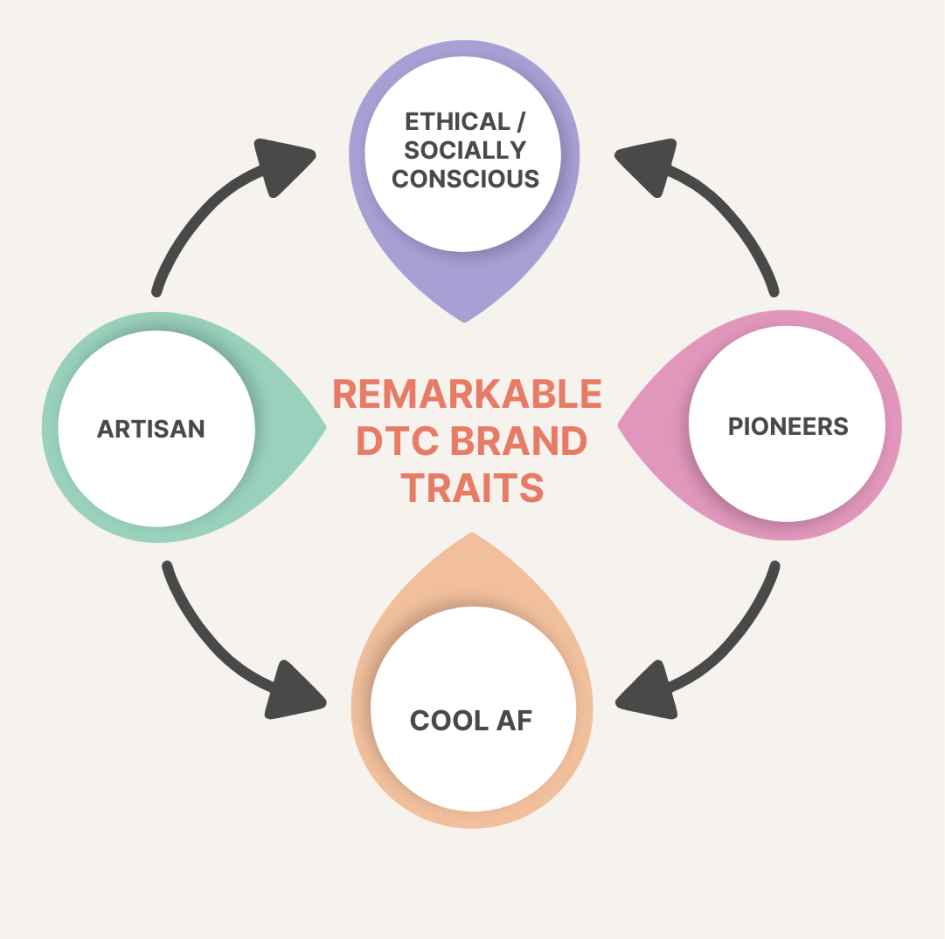


Source: *PipeCandy 2022*

This table from PipeCandy shows just how volatile the DTC subscription market can be. In many cases the current to past subscriber percentage ratio is the same, or more. Losing as much subscription revenue as you gain is a scary picture, particularly as funding starts to dry up and acquisition costs explode.

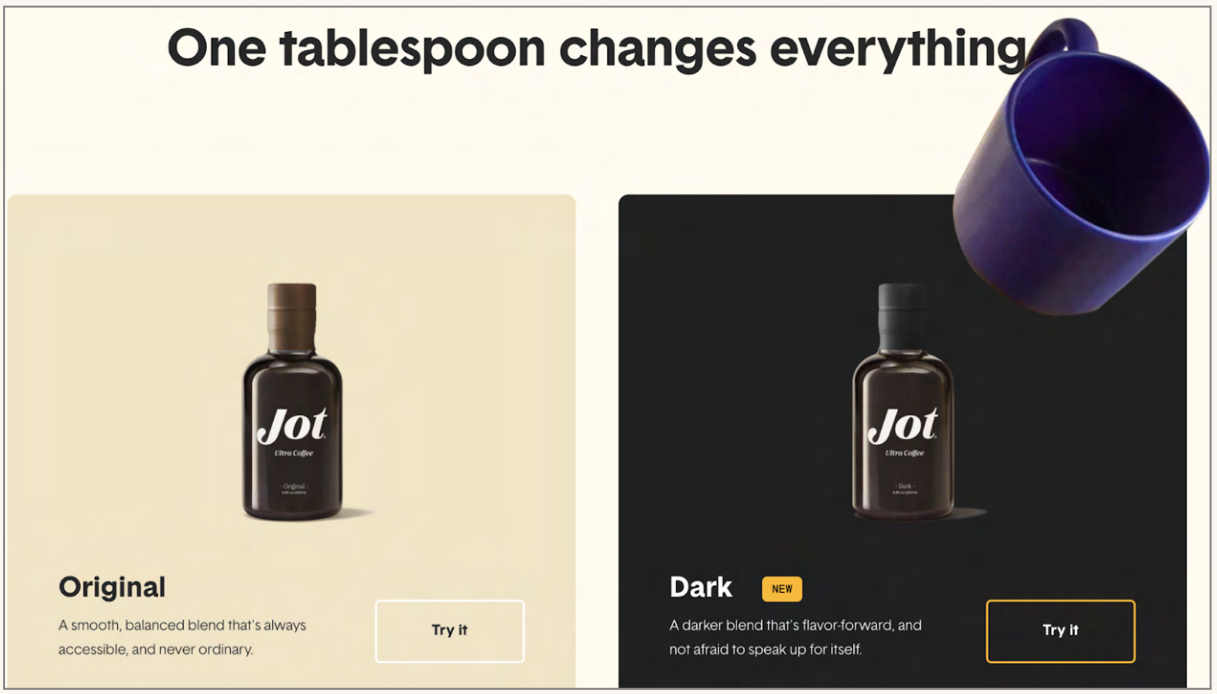
While there are various levers you can pull to retain more of the customer base you've got, having an incredible product and stand-out USP should be number one priority.

What makes a DTC brand remarkable?



To be a remarkable DTC brand in 2022, you need to be memorable, sell something people want and have a bulletproof brand identity. The best-loved DTC brands on the market today have at least one of the pictured traits, some have all four.

Jot Coffee



Jot Coffee sell liquid iced coffee

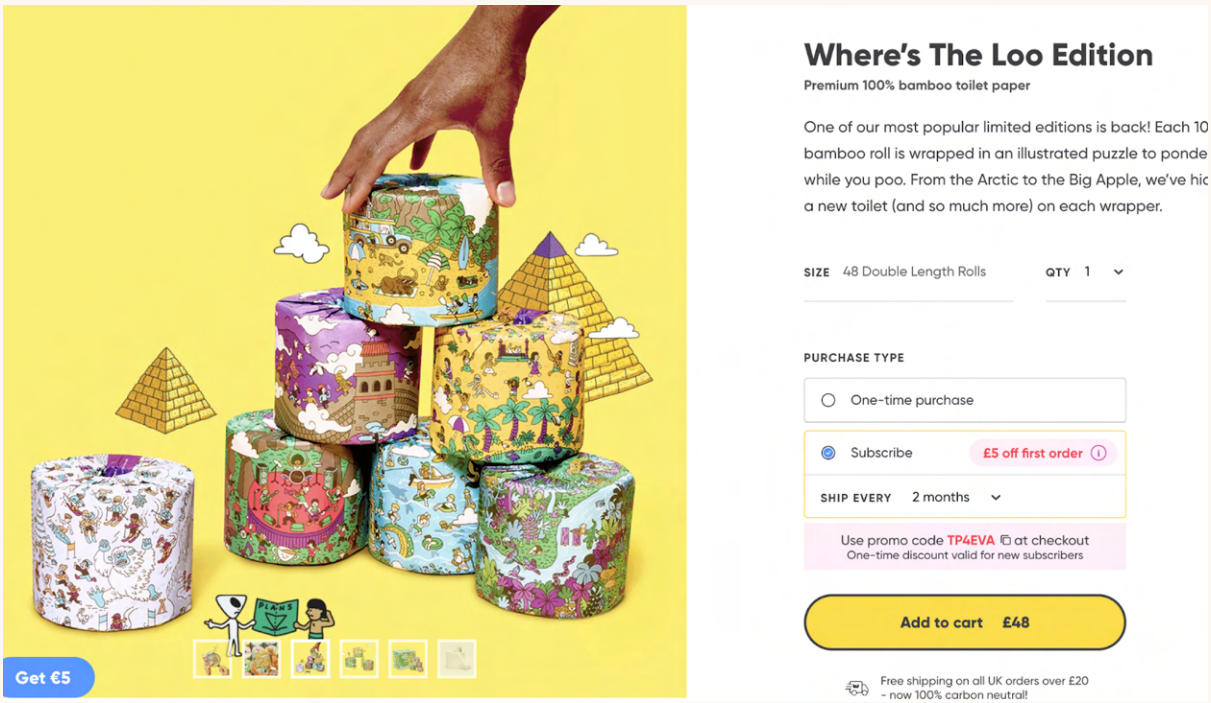
In the US, Jot is one of the fastest growing DTC coffee brands and it's easy to see why. A liquid-concentrated caffeine solution. One tablespoon can be added with water to create instant iced coffee.



The theatre, convenience and originality of this brand has got people excited and it shows with a 55k strong following on Instagram, Jot has also been hailed as FastCompany's most innovative 2022 brands.

If your DTC brand sells something less exciting than magic coffee, it doesn't mean you can't pull various levers to stand out. Most DTC brands can attest to being described as one of the above (see image), some can attest to being all of them.

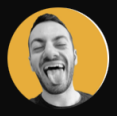
Who gives a crap?



Take the UK brand, Who Gives a Crap? Toilet paper isn't the most interesting replenishment in the world, but the brand has managed to nail the 'remarkable DTC brand' brief with its line of recycled bamboo toilet paper. 50% of company profits are donated to build toilets for the 2.4 billion people worldwide without one and their latest product line is a clever take on the nostalgic 'Where's Wally' game.

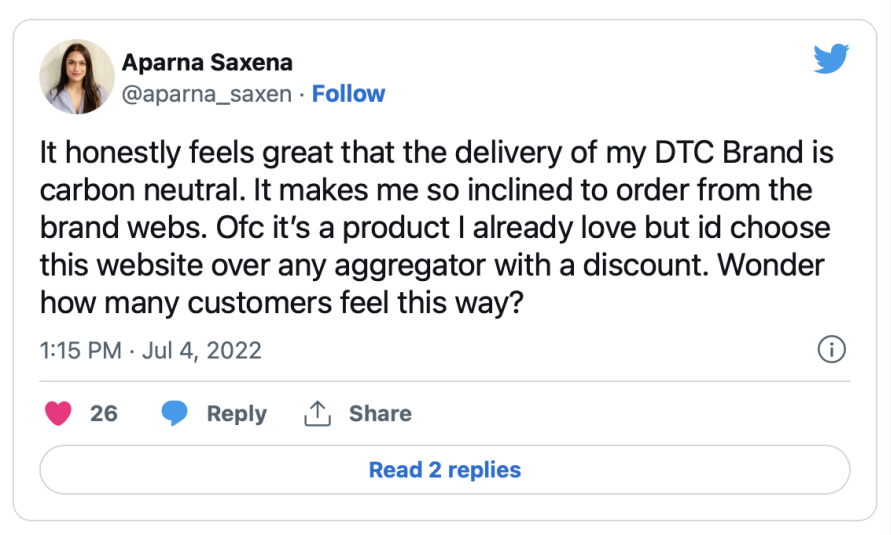
And the hard work has paid off, Who Gives a Crap? has grown its subscription model by 250% in the past two years. It just goes to show that innovation can happen in the most unlikely products.

DTC competition is not all doom and gloom though, if you have a brand that is doing good for the planet, a little competition can be a good thing. This is the case for healthy drinks brand MOJU. Growth Marketing Manager, Josh says,

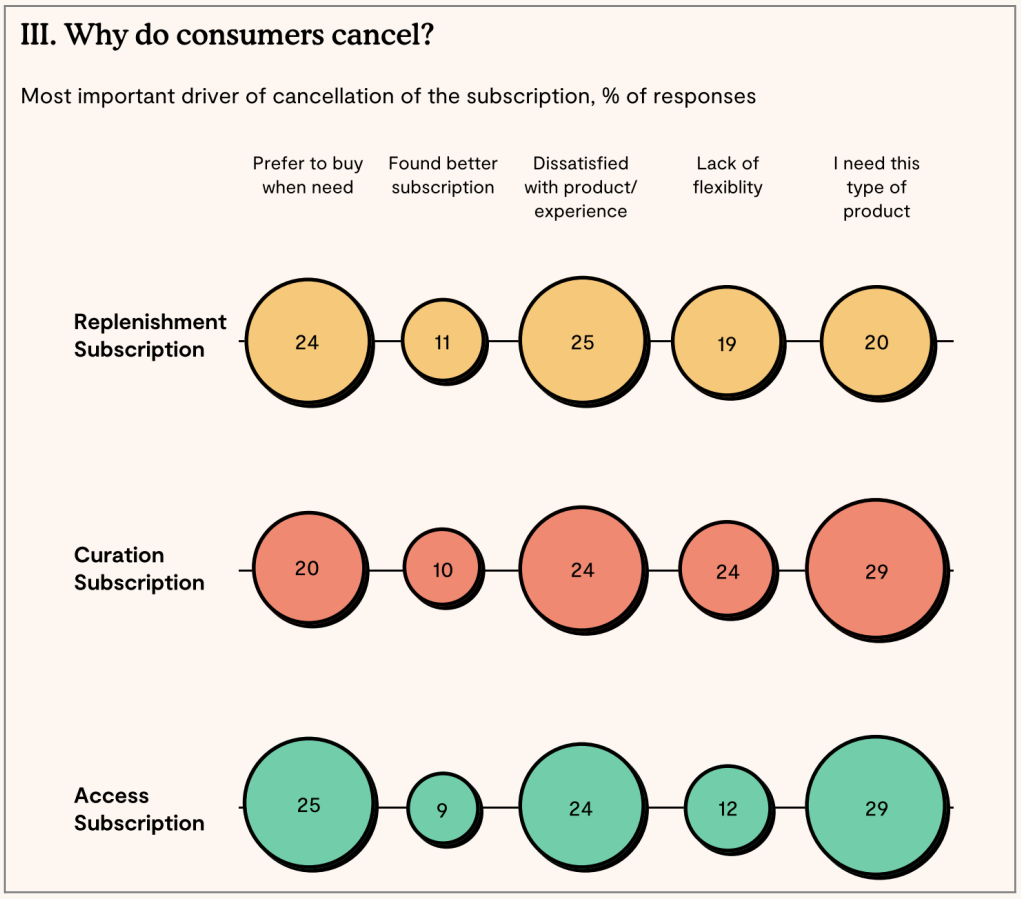
> **“MOJU’s mission is to democratise wellness to make proactive health and wellbeing choices more accessible for every body. Ultimately, if more brands exist to help us reach that goal, it benefits everyone."**
>
> 
>
> Josh Lewis, Growth Marketing Manager
> MOJU Drinks

Continuing, Josh says "We are always doing what we can to break barriers, create fearlessly and shake shot up - be it through new and existing product development, limited editions, new online platforms, pushing boundaries with our design and tone of voice and testing and iterating as we go. On top of that, our dedication to providing the best possible experience for our customers (both retail and DTC) has people coming back again and again for more.”

DTC brands must drive more revenue from existing customers



7 out of 10 customers buy from a brand once and never return, and 70% of first-time online carts are abandoned. Imagine the annual difference in growth if DTC brands could increase their repeat customer rate by just 5%. With acquisition costs through the roof and fierce competition everywhere you look,optimizing your holistic customer journey and driving more revenue from your existing base is the only way to shake off the competition.



Source: *PipeCandy*

There are 3 easy and effective ways to start transforming this today:

1. Target more effectively

Although targeting accuracy has dropped off a cliff with paid advertising, there are levers brands can pull when it comes to email marketing. Predictive data has become very sophisticated and there are now market solutions which sync with Klaviyo and analyze all customer data to make the best possible predictions around optimum repurchasing and subscription adoption times.

2. Optimize your email flows

Do you have effective flows in place to funnel customers at every stage of the journey? Reactive campaigns tend to steal a lot of the limelight and discounting race to the bottom reigns supreme, but consider whether you have the right flows and segmentation in place to really hold onto those customers. Key flows include:

- Abandoned Cart Flows
- Welcome Flows
- Replenishment Flows
- Cross-sell Flows
- Winback Flows

3. Make repurchasing frictionless

36% of customers will stop engaging with a website if they find the UX poor. Take a look at the repurchasing experience. Are you driving customers to the same old clunky landing page? Do customers have to faff around with log-in details to buy again? All of these barriers to purchase can be streamlined.

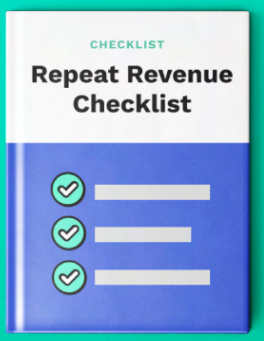
Conclusion

The appetite for DTC Ecommerce brands is greater than ever before, but so is the competition. As corporate giants pile on to get a slice of the pie and external forces shrink time and budgets, the only way to become a resilient DTC brand is to drive more revenue from your existing customers.

Looking for tactics to drive more revenue?

Growth tactics, quick wins and examples to drive more revenue from existing customers.

Try our checklist



CHAPTER 4

Raising DTC funding in a recession

As Europe teeters towards a recession and customers tighten their belts, Ecommerce brands face hard times. The challenge to turn one-time customers into repeat customers grows bigger, while the means to do so shrink. CAC, iOS changes and supply chain nightmares are just a few of the problems brands are battling with on the quest to become profitable - an essential metric to secure Ecommerce investment.

In this piece, we're unpacking the various ways brands can raise funding for Ecommerce, investigating what today's investors are looking for and showcasing DTC brands who've been there, done it and got the t-shirt.

The pros and cons of Angel vs. VC seed funding

When applying for Ecommerce start-up funding, most brands turn to angel investors or VC seed investors. Angel investors are individuals who invest money themselves whereas VC investors tend to be large companies investing on behalf of customers.

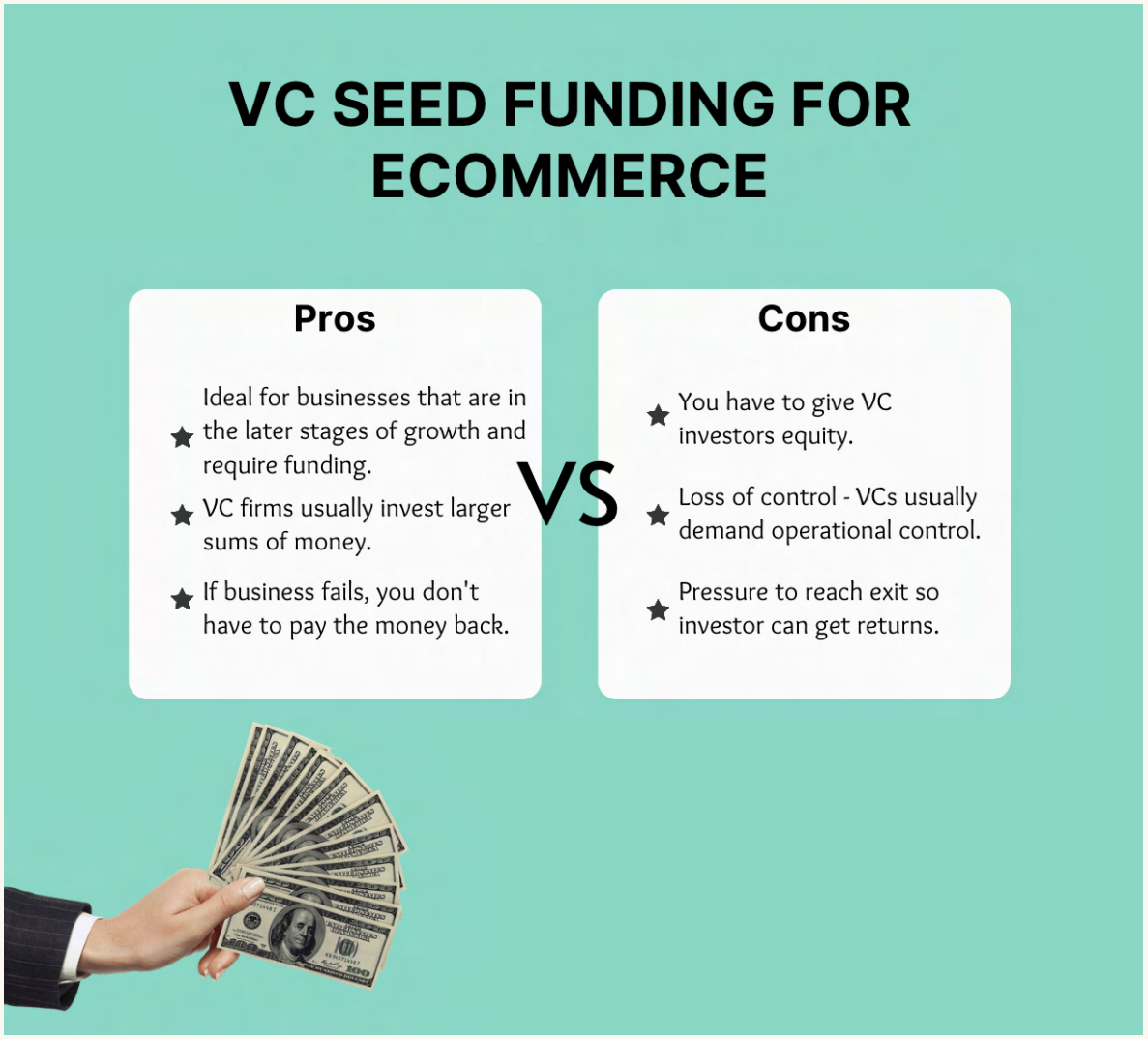
Although both options provide funding for Ecommerce, there are several differences between the two options. We've distilled these differences into two simple tables, because life's confusing enough.

Angel Investment - pros and cons



Angel Investment pros and cons

VC seed funding - pros and cons



VC seed funding pros and cons

In a nutshell, angel investments are better suited to the earlier stages of a start-up (the idea stage for instance) whereas VCs will be looking for evidence of business progression and growth, but often have more cash to play with. Angel investors are willing to invest in riskier businesses - they're usually business owners who have been there and done it themselves. VCs on the other hand are investing other people's money into your business, so it needs to be watertight.

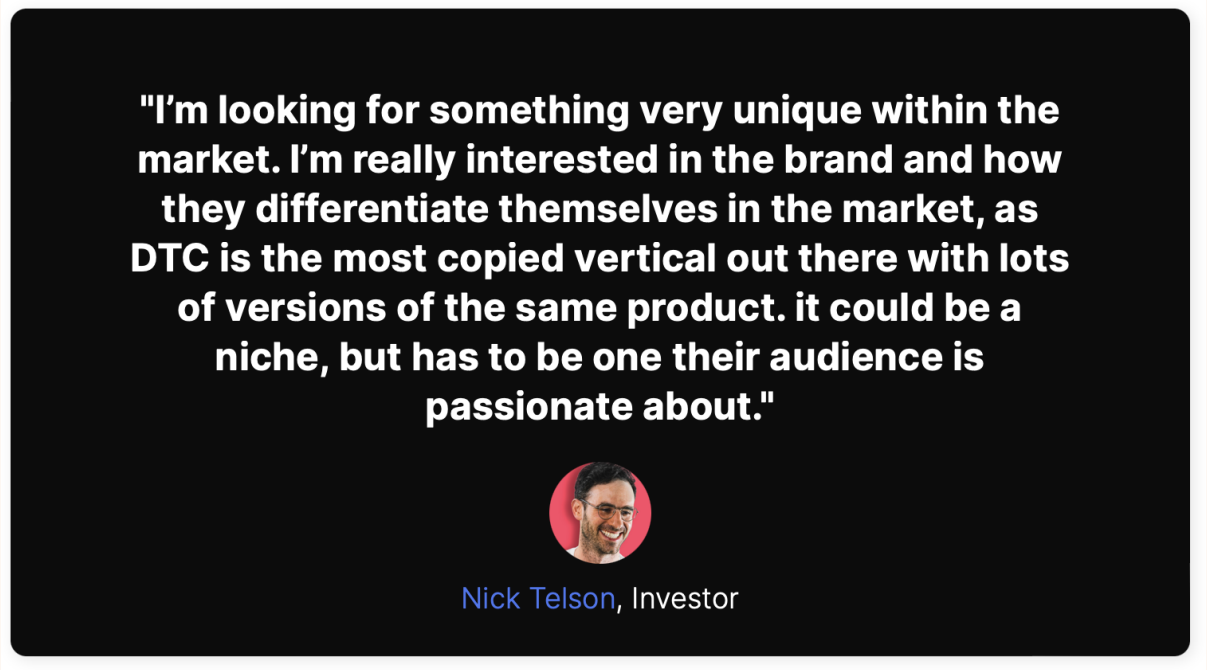
The best funding endeavor to choose really depends on your business, and all investors will differ slightly so it's critical to do your research before jumping into an application.

How to become more attractive to investors

Whichever investment route you pursue, it's important to note that we're going through some of the most competitive times in DTC history. In the US alone, it's predicted that there are over 120,000 DTC brands and DTC makes up 13% of all Ecommerce businesses.

With this in mind, we spoke to Angel investor, Nick Telson to find out how Ecommerce brands can become more attractive to Angel investors.

What are you looking to invest in when it comes to DTC brands?



When would you be looking to invest?

I tend to invest early, pre-seed evaluation. It's tough to show lots of traction at this stage but retention rates is a key metric I'd look at. Some questions I'd have around this are:

- Is there enough repeat purchase? There has to be a point where you stop burning cash just to constantly sign-up new users.
- Do the founders have the skills to market the brand or grow it, or do we need to get that talent in?
- Do the cogs of the product make sense? Sounds obvious but do the math of delivery, returns etc add up? CAC vs LTV, basically.
- Do they have the buzz to go with the press? It's all well and good being featured in newspapers, but if you don't have the sales number to go with that buzz, alarm bells start to ring.

What are the red flags?

Low repeat purchase, very big competitor set and no differentiation, lack of experience in Ecom or growth marketing. The aforementioned press but no sales. These are all the components."

What advice would you give to DTC brands looking to secure investment in the next two years?

Now more than ever, show that traction and buying intent. If you don't have a product yet, can you launch a community or have an early-access list? All of this will give the investor confidence.

If you haven't got Ecommerce experience, find a co-founder who does or show that you've already got the team in mind for the important hires.

Retention - if you are selling, this is one of the key benchmarks that you can hold your customers and they're sticking. That's going to be key - you've built a loyal base, you've been smart about how you've activated loyalty. Also, are those customers sharing your brand and social selling for you because they love your brand?

Those are all really good markers that the brand is on the way to something special. Finally, i'd want to know: is there supplement products you can sell to increase the checkout spend, and is there consistent, steady growth

Discover how to calculate repeat purchase rate

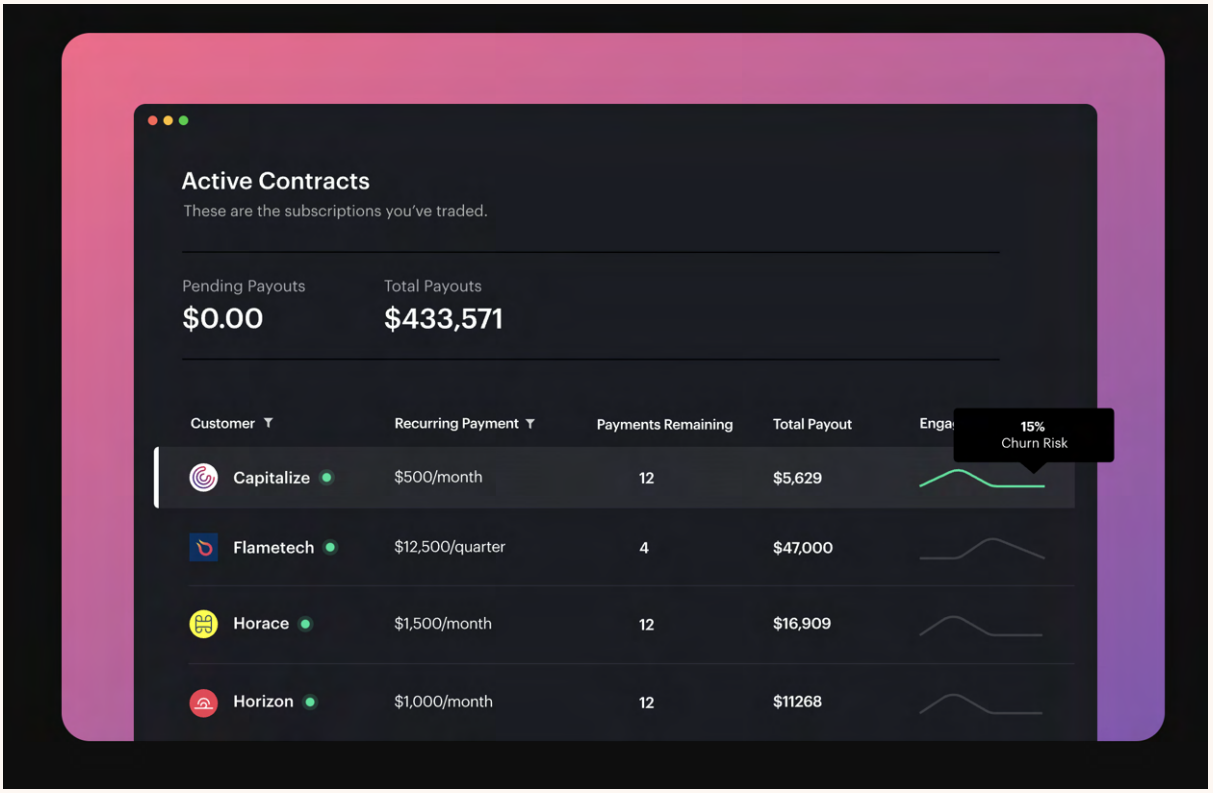
Try our calculator



Alternative funding options

Start-up life moves at the speed of light and sometimes you don't have months to spare creating the perfect funding application to generate cash flow. In this scenario, there are a number of alternative funding options available on the market. We approached Pipe and Juni to tell us more.

Pipe - fast flexible finance



What is Pipe?

Pipe enables companies with predictable recurring revenue, like DTC subscriptions, to trade that revenue for up-front capital. Whether you're looking to hire, invest in marketing, or take advantage of a time-sensitive inventory opportunity, you can get the cash you need quickly without taking on a restrictive loan or giving up equity. DTC brands like MUD\WTR and Verma Farms use Pipe to finance marketing, operations, and even acquisition opportunities.

What's the Pipe application process?

The beauty of a platform like Pipe is the speed and flexibility. Rather than spending weeks or even months on a debt or equity raise—complete with pages and pages of applications and pitch decks—Pipe relies on live integrations. First, you sign up for a Pipe account, which takes just a few seconds, then connect your billing, banking, and accounting software. The onboarding process can take less than five minutes, and businesses can get access to a trading limit (up-front capital) and a bid price (think cost of capital) often within 24 hours.

What can brands do to ensure they are successful?

For DTC subscription businesses, timing is everything. The gap between inventory and marketing costs and bringing in the revenue can be the biggest hurdle. That can leave you scrambling for capital to fill the gap, or worse, offering steep discounts for up-front annual payment. By leveraging your recurring revenue, you can close that gap and invest in your own growth to scale faster.



Finally - is there a catch?

Pipe charges a 1% trading fee to both sides of the platform. Institutional investors then bid on recurring revenue streams based on what they are willing to pay. Typically, we see bids between 93 and 97 cents on the dollar, compared to the 15-30% discounts companies often give their customers for up-front annual payment.

Juni - online advertising credit card



How can Juni help DTC brands financially?

Juni is specifically built for ecommerce. Juni provides a full-suite of financial tools such as multi-currency bank accounts, debit cards with cashback, interest-free credit lines, virtual cards, insights and great features like auto-retrieving Google ads receipts and automatically syncing with Xero.

"If you're looking to grow your business through ad spend on Google, Facebook, TikTok and others then you can supercharge your spend with Juni's flexible credit lines."



Tom Lovelace, Commercial Lead

What's the process for applying?

You can sign up via the Juni website. You'll need to go through our KYB processes where you can submit a few documents to verify your identity so we can make sure we're compliant with regulations and you can then connect your financial accounts and apply for credit. Instead of using outdated filed accounts, Juni underwrite based on open banking data so customers connect their financial accounts to the platform which gives read-only access to their finances for fast, accurate decisions on how much we can lend.

Is there a catch?

No. You can get up to 1% cashback on all your spend, you get great insights into your business, low FX rates, save time on admin and it's completely free to use. There are no fees for using the Juni platform and the credit is interest free.

What can brands do to ensure they are successful?

Connect all their financial accounts, from banks to credit cards to payment processors, so Juni have a full overview of their business. If we can only see one account, we may offer lower credit limits because we can't see a whole other section of the business. It's also helpful to let us know of any non-financial information that might affect eligibility, like a pending funding round.

DTC funding success stories - HUX



When considering Ecommerce business funding, it makes sense to take a leaf out of the book of brands who have been there and done it. HUX Health is a DTC brand offering superfoods and hydration products, without the nonsense.

The UK-based start-up recently secured a £1M funding round. We caught up with Founder, Damien Hyrne of HUX to find out how they did it.

What is the mission of HUX?

"Our mission is to inspire everyone to find their daily edge by making complex nutrition simple. Wellness should be about positive, effective rituals, not rules. We have created science-backed clinically proven supplements for essential nutrition, brain health, recovery and sleep; and a brand to place proudly on the kitchen bench, not hidden away in the cupboard."



Damien Byrne, Founder

1M funding is such an achievement - well done! What do you put your success down to?

A team with a diverse set of complimentary, road-tested experiences. Our investors have also been able to see the clear white space we do - for highly effective, trusted, beautiful health supplements.

How much value do you think investors put on healthy profit margins and repeat revenue?

Healthy profit margins are much less relevant than repeat revenue potential. It does help though that we have a high value, dense product range that allows for a clear pathway to profitability.

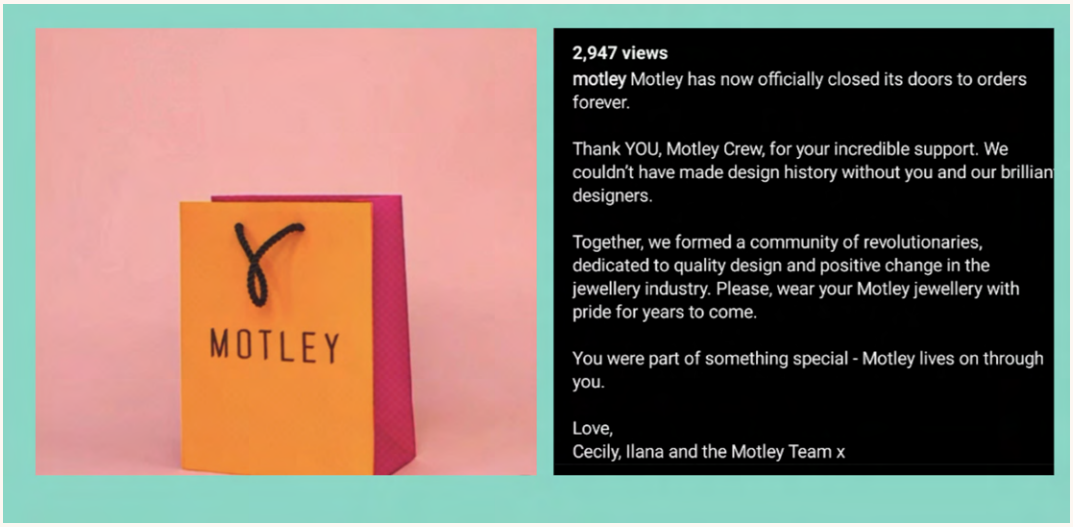
Did you face any challenges on the funding journey?

Timing has been the largest challenge.... The last eight months have been materially harder to raise money than the prior few years - for all the known and obvious reasons of global uncertainty due to the war and high levels of inflation.

Finally, what's your advice to other DTCs looking to secure investment?

Investment is in people first, idea or product second. Purely digital acquisition costs are very expensive at the moment, so think more broadly about how you would complement this.

DTC cautionary tale - Motley Jewelry



Motley Jewellery's closing statement

Not all businesses reach the golden echelons of growth, in fact 60% of new businesses fail within the first 3 years. DTC brands are not immune to this sobering stat. Motley launched in 2017 on a mission to disrupt the jewellery industry with affordable, designer-made gems but sadly closed its doors in May.

Despite building an amazing brand, co-founder Cecily Motley commented "What I didn't know then [5 years ago] was how small the "good idea" slice is in the pie graph of success. Brilliant brand and operational prowess will only get you so far; cash, luck, category growth and timing must be right to propel you to the unicorn sphere."

Ilana Lever, Motley's other co-founder, cited the difficult iOS privacy updates of last year as a catalyst for the brand's economic downturn. "The financials only made sense at scale, and iOS 14 knocked those aspirations for scale on the head. We hadn't realised the influence of Facebook on our business. As Facebook lost its effectiveness, our unit economics crumbled."

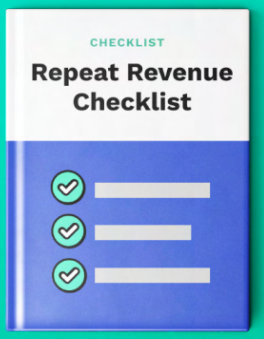
Conclusion

As we hurtle towards the toughest economic challenges since 2011, only those with the most sustainable growth strategies will survive. At Relo, we believe driving more recurring revenue from your existing customers is the best way to futureproof your business.

Looking for tactics to drive more revenue?

Growth tactics, quick wins and examples to drive more revenue from existing customers.

Try our checklist



CHAPTER 5

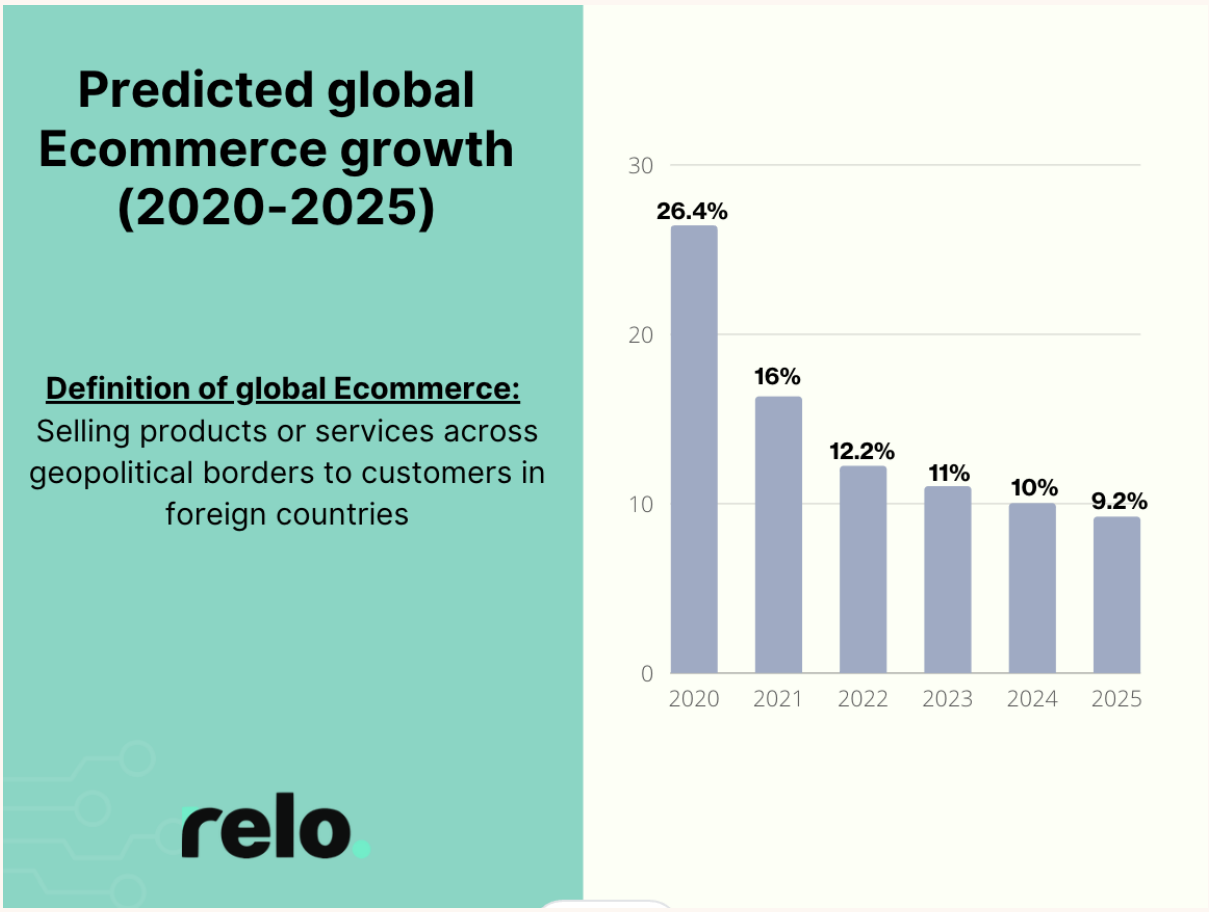
Ecommerce scaremongering vs. reality

Last month, Shopify - the all-in-one Ecommerce platform and go-to for DTC brands - made 10% of its workforce redundant. Earlier this summer, pay-later provider Klarna also cut 10% of its workforce in a controversial move following a hiring spurt just two months prior. The catalyst for both? A cocktail of inflation, stock market volatility and a looming recession.

With energy bills expected to double for UK households by January, and inflation currently running at 9%, the majority of consumers are feeling the pinch. When times are hard, people cut back on non-essentials to stay afloat and nice-to-have luxuries are usually the first thing to go.

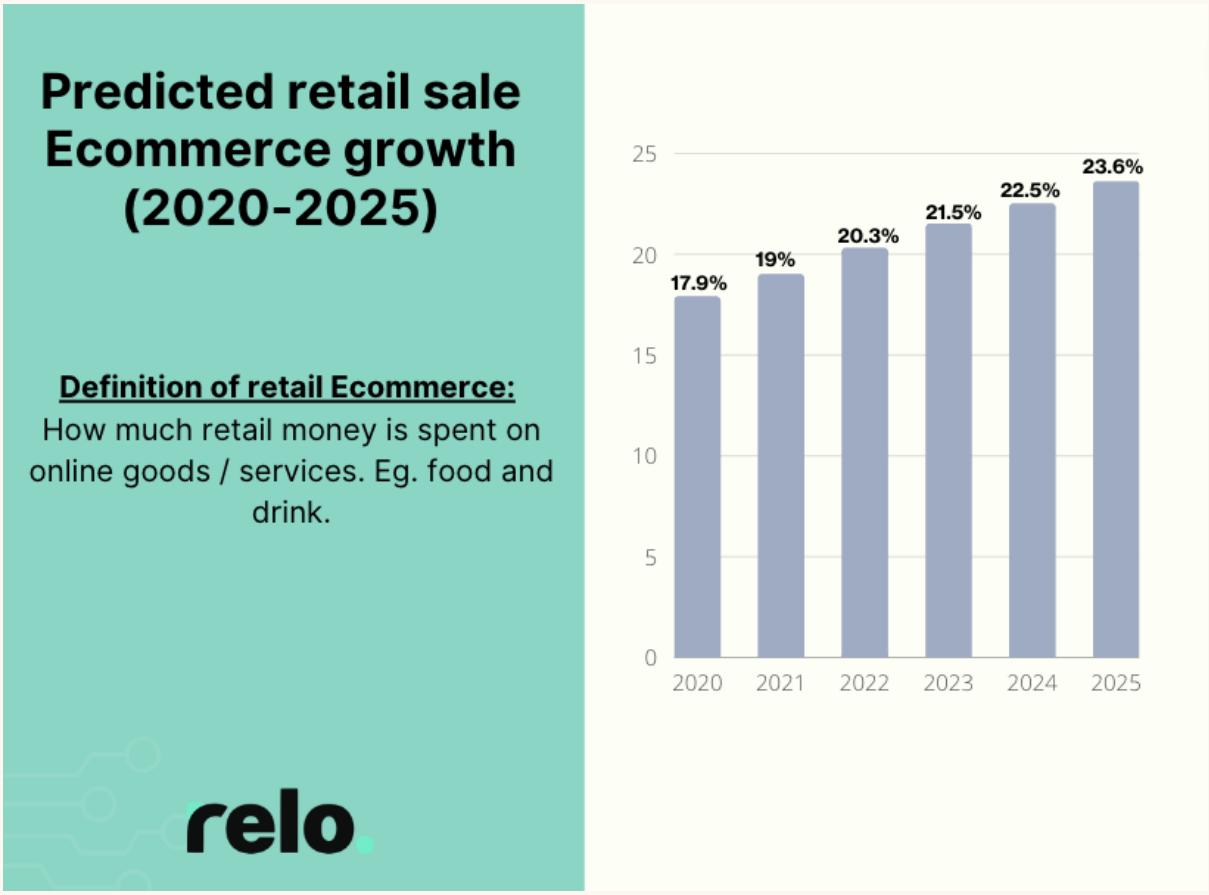
While all of this casts a gloomy shadow over the future of Ecommerce, is the picture really as bleak as the news leads us to believe? Let's take a look.

Predictions for the future of Ecommerce



Overall global Ecommerce growth is currently down 4.1% on the previous year, and looks set to slow further in the coming years. It's worth bearing in mind though, the global Ecommerce market is still growing, just not at such a fast rate. Global Ecommerce essentially means 'international Ecommerce' and selling online goods between geopolitical borders.

When we look at how much retail spend is predicted to be online in the coming years (see below), the picture is overwhelmingly positive.



By 2023, it's expected that for every £100 spent by consumers, £21.50 of that will be spent on online shopping. This figure is set to increase incrementally up to 2025. Global Ecommerce growth is slowing down, but the percentage of money spent online is growing.

Futureproofing your Ecommerce business against a recession



During the recession, DTC brands offering essential goods and services are likely to fare much better than the more niche, nice-to-haves as consumers scale back on outgoings.

Natalia Howard, Head of Ecommerce Strategy at award-winning Shopify Plus Agency, Underwaterpistol says,

“Brands will have to work harder than they did last year to achieve the same results, so it’s more important than ever to have a unique and high-quality product. In the coming months, I think we’ll see a return to in-person commerce and spending in-store, so brands will shift their focus towards omnichannel strategy.

Brands may also be exploring internationalisation, going beyond borders to expand and diversify their marketing efforts. They'll have to leverage new channels (such as SMS) to the best of their abilities to maintain or expand their market share. Brands are looking at making smart investments for the next few years whilst also having the right foundation in place to sustain themselves for now.”

We also asked Adam Kitchen, Founder of Ecommerce growth agency, Magnet Monster for his opinion on the next 12 months for Ecommerce. Adam has helped over 100 D2C brands to scale using growth tactics with $15M revenue attributed to email.

Adam says,

“Ecommerce is continuing to grow as a proportion of total retail sales, it's just a reversion to pre-pandemic levels. So, the reality seems grim in the short-term but is positive in the long-term. When this is combined with saturation in the marketplace of competition, sky-high CAC, reduced tracking, inflation, logistics issues, and a global recession on the horizon, it's hard to see light at the end of the tunnel - but there will be.”

Seize the opportunities others will shy away from

In terms of survival tactics for the short term, Adam recommends analyzing CAC spend against payback period, and being bold.

“My advice would be, know your numbers when it comes to CAC spend against payback and be resilient when others are fearful to seize the opportunities that appear. Anybody that is able to survive and come out of this stronger will be in a formidable position to capture significant market share in their industry in the next 2 years.”

Ross Adamson of Charle - a Shopify agency that has worked with the likes of Candy Kittens and Rude Health agrees.

“While the innate response for eCommerce brands is likely to cut costs on business operations such as marketing during the expected recession, it's important to remember that those brands who put in the graft and double down on marketing efforts will have the most success throughout the recessive period and come out on top by the end of it. Don't see the recession as a hindrance- see it as an opportunity.”

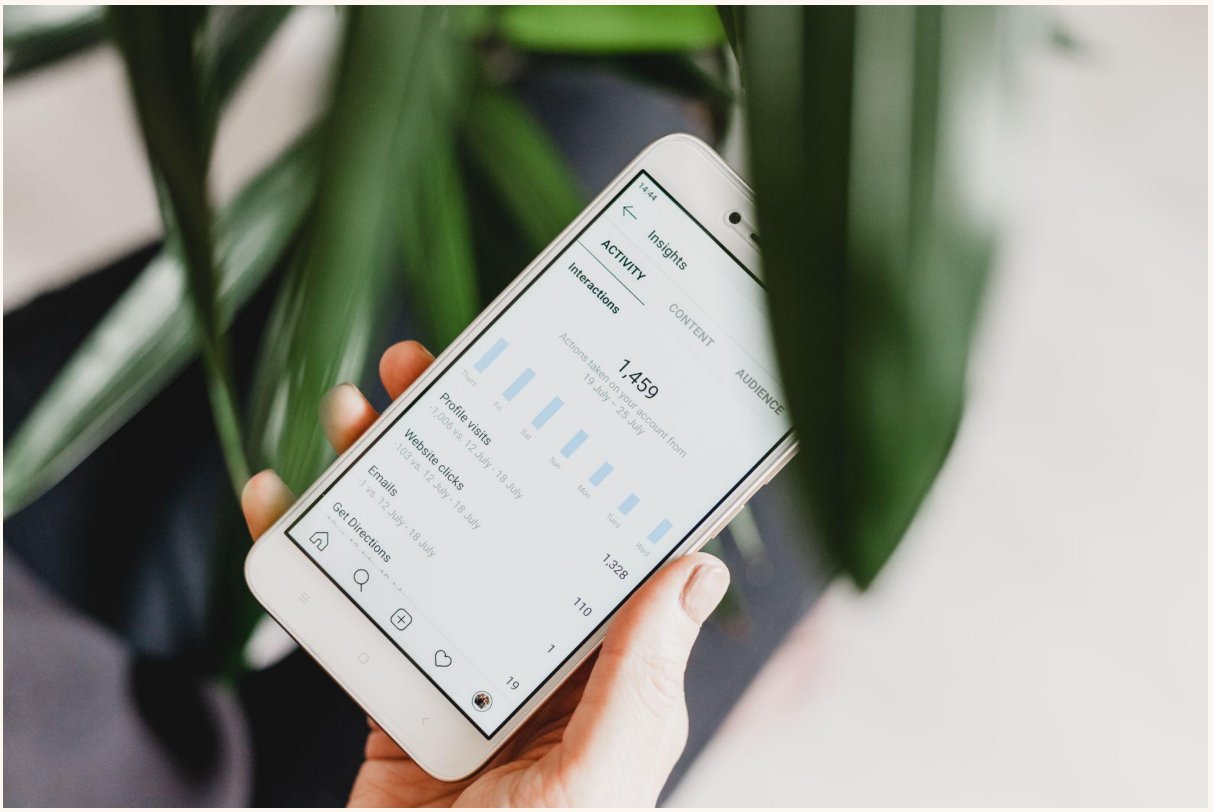
Meanwhile, Head of Growth Nathan Abbott, Head of Growth at Underwaterpistol believes that immersive tech could have its time to shine over the next year. He says,

“There seems to be a feeling that while Ecommerce activity and investment has slowed down somewhat, merchants are looking inwards and focussing on their own brand. This might involve looking at how their site is functioning with the use of headless or immersive tech (like Metaverse) to get more out of the customers they already have. They’re not sitting still and battening down the hatches. Successful brands are looking at how they can grow in challenging times.”

He continues,

“My main advice would be to invest as much as possible into developing your brand image by doing things like producing thought-leadership content and creating a personality around your brand. People like to associate themselves with brands they trust, so if you can add value to your brand on top of your product, such as with trustworthy messaging and showing your story, it’s great to put that front and centre.”

Diversify ad spend



iOS privacy changes and a loss of third-party data has made it increasingly difficult for Ecommerce and CRM Managers to target customers effectively.

Ross recommends spreading your advertising efforts across multiple channels for best results.

“Focus on diverse traffic acquisition across a number of platforms (i.e don't focus solely on FaceBook ads for example) and push hard to be unique in the creatives and stand out from the competition so that customers choose your brand over others.”

Built a bulletproof DTC brand



DTC brands are ten a penny these days. If you want to stand out and be remembered, you need to build an unforgettable brand. We asked Nathan Abbott and Natalia Howard of Ecommerce Agency Underwaterpistol to describe a few ways brands can carve out a stronger identity.

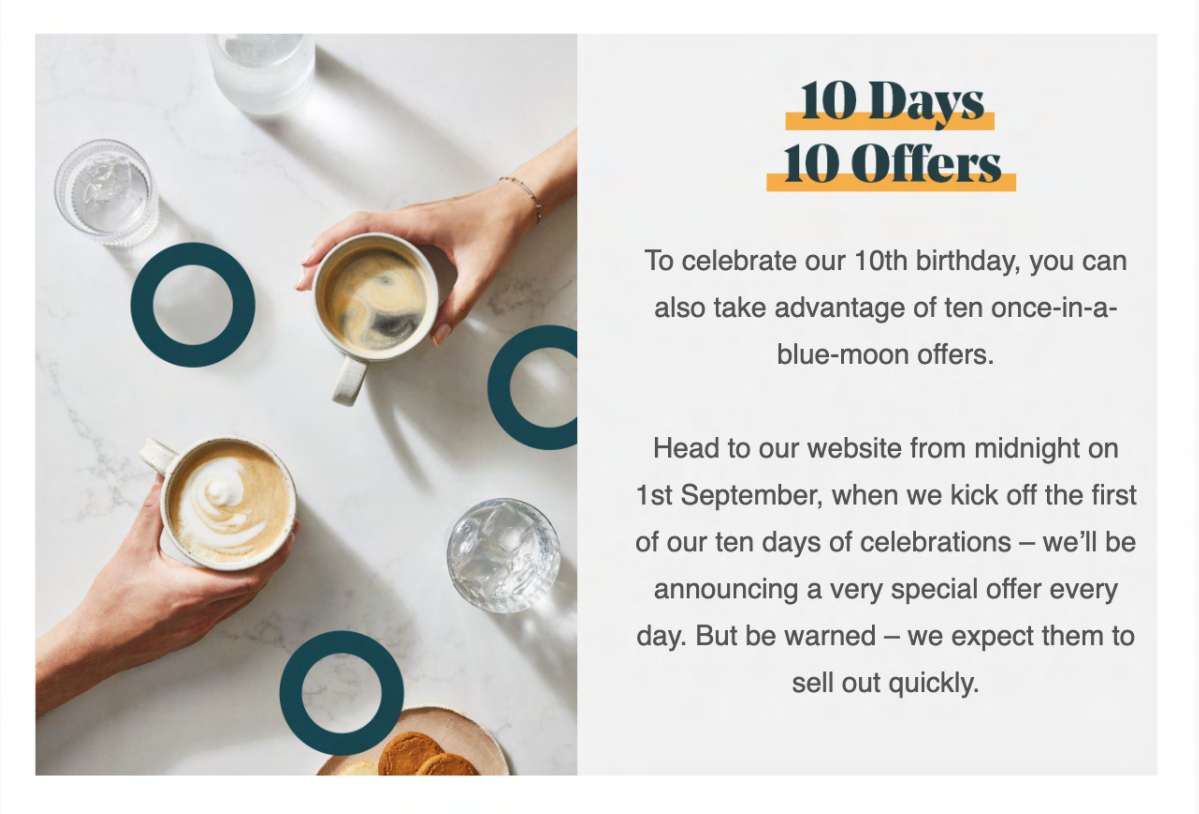
Nathan Abbott:

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She continues,

“To future-proof their businesses, ecommerce brands should put a strategy in place. A potential customer is going to interact with a brand at multiple touchpoints on the path to purchase, and those brands need to present every step of the way to increase the likelihood of that purchase going ahead. To do that, you need an overarching strategy in place that coordinates how channels will come together to achieve growth.”

Retain existing customers



The DTC brands we work with tell us all the time that the biggest problems they face are to do with retention and churn. Now, more than ever DTC brands are going to have to show their existing customers that there is value in buying from them again, or keeping a subscription or face losing them to the unfolding recession.

It may be tempting to go off in search of the shiny new customer, but Ross doesn't recommend it. "It can cost five times as much to acquire a new customer compared to maintaining an existing one, highlighting the importance of retaining your relationship with loyal customers and ensuring they're kept satisfied."

Which DTC brands survive hard times?



The good news for DTC brands is that many do offer consumer staples that can be considered essential according to the graphic above. Anything that is required to function like food and drink is unlikely to suffer too badly.

When it comes to sinking funds, price-conscious consumers will look to cut spending in high price areas like holidays and eating out but the reverse of this is that they still want to enjoy small pleasures at home, hence holding onto a coffee subscription, beauty items or wine delivery.

One anomaly to this logic is luxury goods, which in the 2011 recession, continued to thrive with brands like Yves Saint Laurent reporting a 59% increase in revenue. We can only assume this is because the consumers who tend to buy luxury goods have a wider safety net of disposable income to begin with, so are not as affected by economic downturns.

Having said this, the concentration of DTC brands in these areas is higher than it's ever been before, so brands are going to have to bring their A-game to stand out.

Natalia Howard from Underground Ecommerce agrees.

“Brands will have to work harder than they did last year to achieve the same results, so it’s more important than ever to have a unique and high-quality product. In the coming months, I think we’ll see a return to in-person commerce and spending in-store, so brands will shift their focus towards omnichannel strategy.

Brands may also be exploring internationalisation, going beyond borders to expand and diversify their marketing efforts. They'll have to leverage new channels (such as SMS) to the best of their abilities to maintain or expand their market share. Brands are looking at making smart investments for the next few years whilst also having the right foundation in place to sustain themselves for now.”

Futureproof with Relo

At Relo, we believe the best way to futureproof your DTC brand is to drive more revenue from your existing customer base. In fact, we launched our repeat revenue solution after acutely experiencing problems getting customers to buy again, try a subscription and stay loyal when building our own DTC brand 5 years ago.

There are 3 key ways we help brands to unlock more repeat revenue. Brands like Puresport have increased their repeat revenue by 15% using us.

Precise customer targeting

The trouble with targeting customers for repurchase or subscription is that knowing their usage is extremely difficult and building out customized flows is even harder. What usually happens is everyone gets lumped into the same email blast asking the customer to repurchase or try a subscription leading to low or no conversion.

We solve this by analyzing the average order gap across customers, purchase products and all-time orders, so you can make the best predictions possible. The best part? This is all done via Klaviyo so you can push the data into your existing flows.

Personalized repurchasing experience

Today's consumers want fast and friction-free experiences, but landing pages aren't optimized for this. Customers who want to repurchase or manage subscriptions are often taken to clunky landing pages designed for the masses.

We solve this with a personalized portal that can be added to the CTA buttons of your Klaviyo email and SMS flows. Customers enjoy a pre-loaded portal that's mobile first and personalized to them. We call it, Magic Cart.

1-click mobile-first checkout

The final piece of the puzzle is improving conversion. Magic Cart's 1-click checkout feature means that a customer can buy again or manage their subscription in seconds, without the need to log in. Brands that have introduced this have enjoyed a 21% reduction in subscription churn.

About Relo

At Relo, our mission is to help DTC brands grow faster and stronger with products specifically designed to increase repurchase rates, grow subscription customers and keep subscription customers.

Try Relo for free

Drive more repeat revenue in your Ecommerce business with our tried and trusted solutions.

Start your 30-day free trial

