

Direct-to-Consumer (D2C) Companies

Industry Analysis and Market Estimate



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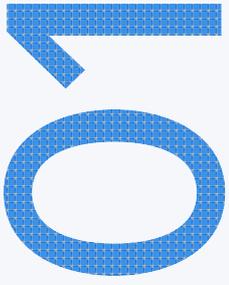
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EXECUTIVE SUMMARY

This report was published by PipeCandy Inc. to explore the D2C segment and estimate the total addressable market (TAM) for D2C Fashion. The report analyzes the global Direct-to-Consumer (D2C) market and the D2C Fashion Brands eCommerce segment, estimates Total Addressable Market and profiles companies in terms of Web Sales, Product Category and Catalog Size.

For this analysis, we define “D2C Companies” as “any business that sells directly to its consumers via online channels while seeking to provide an end-to-end brand experience by focusing on product design, marketing and customer engagement.”

We used a mix of top-down and bottom-up approaches to analyze the D2C market, with a particular focus on fashion brands. Our analysis reveals the D2C market has one ‘long tail’ segment consisting of small businesses and start-ups, and three segments that are smaller in number but dominate the market in terms of presence and sales. This ‘long tail’ structure is typical of the eCommerce industry in general. To estimate the total market size, we studied each of these segments and company distribution by Catalog Size, Product Category and Web Sales for each segment. This was supplemented by a bottom-up approach by analyzing the extensive PipeCandy database of eCommerce companies.

The total D2C market comprises of approximately 22,000 companies. Nearly 90% (20,000 companies) of the D2C market is made up of small lifestyle brands; the rest of the market comprises of three primary company segments:

1. The emergence of a several fast-growing, buzz-worthy DNVB brands (500-1000 companies)
2. Traditional B2B2C brands (200-400 companies) and
3. Legacy fashion retail megabrands (100-200 companies)

For the purpose of this report, we will combine the traditional B2B2C brands and legacy fashion retail megabrands together as “Traditional Brands”.

The three major product categories in the D2C Fashion Market are Apparel, Cosmetics and Jewelry. Apparel dominates the market with a share of nearly 75% with Cosmetics (17%) and Jewelry (8%) taking up the rear.

From a catalog size perspective, there are about 5000-6000 companies that have more than 500 SKUs. The proportion of these companies vary by segment: over 90% of the Traditional segment have over 500 SKUs, while just 20% of DNVB companies have more than 500 SKUs. Almost all ‘long tail’ companies have less than 500 SKUs.

Further insights from this research are provided in the section ‘Key Findings’ (Section 2.c) of this report. Details of the segment-level analysis including numbers and charts are available in the section ‘Segment Analysis (Section 3.d) of this report.

Based on the TAM figures, this report concludes that

1. The DNVB companies, by their very nature focus on specific verticals within their product category and are likely to have a small catalog to start with. However, they do need greater degree of accuracy and descriptive skill in product tagging as they need to connect with their consumers. Further, given their active presence online and on social media, there is a more frequent need for a product to help with image tagging and description.
2. The long tail DTC Ecommerce Brands have a significant sub-segment (7,500-10,000 companies) that have over 200 SKUs and change their catalog at least once a quarter. These may be suitable for a leaner scaled down solution. The key drivers of adoption will be the frequency of need and the ability to pay per use, without an annual lock-in.
3. The DNVB segment is fast growing and new companies emerge every week. So it may be a good idea to track long tail company performance and identify emerging DNVB brands early.



INTRODUCTION

a. Background & Context

This report analyzes the global Direct-to-Consumer (D2C) market, the D2C Fashion eCommerce segment, estimates Total Addressable Market and profiles companies in terms of Web Sales, Product Category and Catalog Size.

b. Scope of Analysis

We initially restricted focus to emerging D2C brands that are digitally native – DNVBs and then branched out to include two other segments.

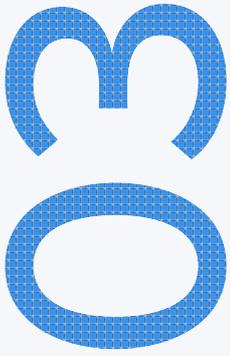
1. Enterprise brands that have developed D2C sales channels
2. Other D2C Ecommerce companies most of whom are ‘long-tail’. (They could be digital-first and/or sell through other retail chains)

We then did a deep-dive on Fashion D2C companies – selling Apparel, Accessories, Jewelry and Cosmetics.

c. Key Findings

1. Across all three brand segments in our scope, Apparel is the dominant category within Fashion with a share of at least 75%
2. Beauty & Cosmetics outpaces Jewelry & Luxury sales in the long tail DTC ecommerce and DNVB segments; and vice-versa in the Traditional segment

3. DNVBs differ from the Enterprise and long-tail D2C ecommerce brands in that they are extremely niche-players, selling one type of product such as Footwear or Eyewear, while obsessing over Branding and Customer experience
4. There are about 500 startups in the D2C space that have collectively raised \$3 Billion in funding
5. About 52% Enterprise brands make anywhere between \$10M and \$100M in web sales
6. Increase in disposable income is contributing to an ever-burgeoning middle-class population.
7. Number of fashion consumers is expected to grow to more than 1B by 2020
8. APAC – China in particular is a major fashion consumer
9. Majority of the shopper cohort is between 16-34 years of age
10. Selling via Social – Facebook, Instagram, Pinterest and Snapchat has caught on and brands are telling a new narrative by going D2C
11. Pressure on mediocre players from socially responsible brands that stand for a cause.



MARKET ANALYSIS

a. WHAT IS D2C?

Direct-to-consumer (D2C) sales has been one of the most significant trends in the consumer goods industry in the last few years. This has been fueled by the rise of online commerce as a sales channel and by social for branding and customer engagement. Many of the most talked-about consumer brands now - Warby Parker, Everlane, Bonobos – all started as digital-first eCommerce companies selling to consumers without any intermediaries such as wholesalers or retailers.

However, the D2C market is not just these 'Digitally Native Vertical Brands' (DNVBs). Many traditional B2B2C brands such as Nike and branded retail chains such as Gap or Timberland are also aggressively pursuing digital D2C strategies.

For these companies, the promise of D2C is greater connect with millennial consumers who go beyond product features and look for a lifestyle and emotional fit with the brand values and total brand engagement. Another compelling reason is the potential to collect rich customer data that can be turned into greater personalization and higher lifetime value.

b. LANDSCAPE

Any eCommerce company that owns its Branding, Designing and Production activities can be classified as a D2C eCommerce company.

The D2C channel is growing at 44% YoY as on 2017. The average e-commerce retailer grows at 16% YoY.

The D2C movement was in its nascent stage around 2011. Today, there are an estimated 500 D2C startups that have collectively raised about \$3 billion in venture capital since 2012.

Based on our analysis, we see that DTC eCommerce brands can be classified into four segments.

1. Brand manufacturers – like Nike, Adidas – whose business model was primarily B2B2C before they went D2C offline and online.
2. Brick-and-mortar D2C retail chains that have gone digital – like GAP, Timberland

For the purpose of this report, we will consider the above two segments together as ‘Enterprise-level brands’. There are a few hundred players in these segments, which typically sell through retailers or their own brick-and-mortar stores.

3. D2C brands selling through their own ecommerce store

This segment forms the largest chunk of the Brands universe. Many of them are ‘long-tail’ companies and continue to be in their budding phase. It’s important to keep tracking how these companies perform because given the emergence of Digitally Native brands that are extremely vertical focused, these companies may resort to a vertical strategy later or even open their own brick-and-mortar store.

4. Digitally Native brands

DNVBs are very different from their e-commerce resellers. They lay extreme emphasis on Brand Marketing and Customer experience and invariably sell only one kind of product. This narrow focus on product type gives them enough room to build their Brand and focus on increasing Customer LTV by delivering personalized customer experiences.

c. CHALLENGES

Opportunities to build large-scale D2C brands online seem limited. The kind of companies that have seen obvious success with the D2C model are Warby Parker, Dollar Shave Club (Unilever) because their market dynamics were of a specific kind – one giant dominating 70%+ of the market. These two companies disrupted the consolidation in their respective industries, cutting down prices and offering a better experience. Not all industries exhibit the same dynamics as razors and eyewear once did.

Moreover, the new middleman is not a shopping mall / retailer but Social – Amazon, Facebook, Instagram, etc. All D2C companies are competing through the same channels, targeting the same customers – mostly millennials – driving up average CAC. As some in the industry say, “CAC is the new rent”.

Fung Global Retail and Technology explains some of the opportunities and challenges for the DTC segment below.

Source: Fung Global Retail & Technology

Channel	Opportunities	Challenges
Standalone E-Commerce (Web or App)	Control the experience and the user data	Driving traffic to the site, managing fulfillment and customer service
Online Marketplace	Wide reach, outsourced fulfillment and customer service	Less flexible storefront design, giving up control over data
Social Media	Personal connection with the consumer, ability to test and experiment in real-time	Social media capabilities across platforms
Standalone Store	Knowing your customer, offering instant gratification	Long-term commitment
Pop-Up Store	Running tests and experiments in a physical environment	One-time interaction with customer
Showroom	Focusing on experience, lowering operating costs	Forgoing the ability to offer instant gratification

c. SEGMENT ANALYSIS

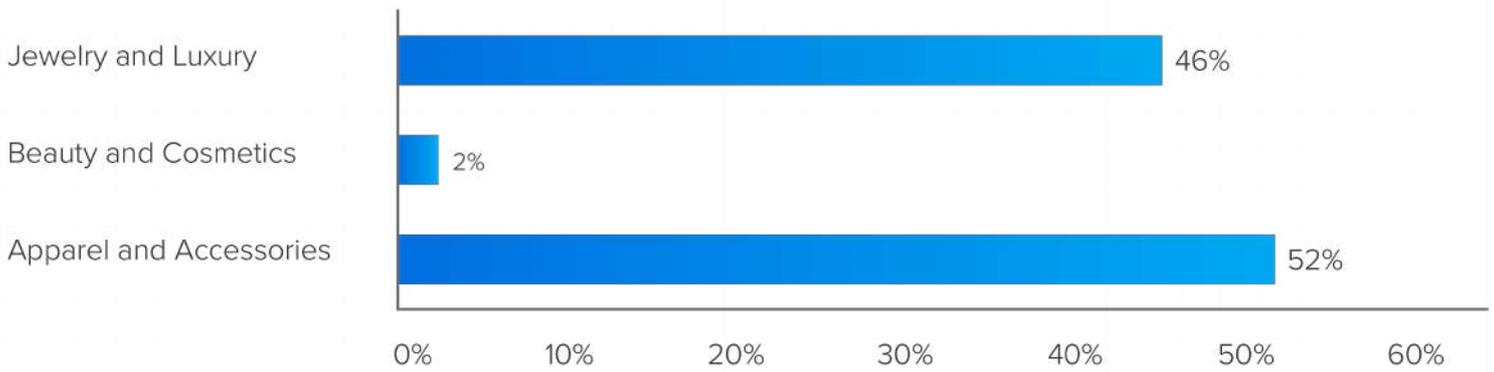
In this section, we analyze how the addressable market in each of the three brand segments outlined earlier is distributed in terms of Catalog Size, Product Category and Web Sales.

1. Enterprise Brands

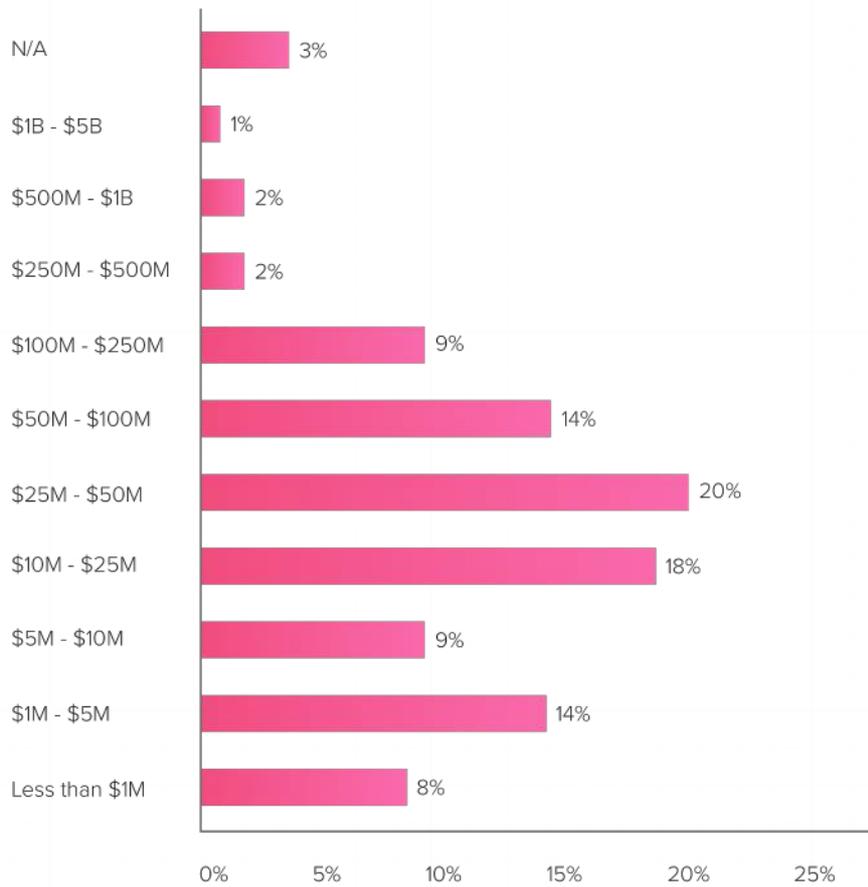
Per our analysis through the top-down and bottom-up approach, we estimate the size of the addressable market in this segment at about 500 companies.

Of the 500 companies 52% of them sell Apparel, 46% sell Jewelry and Luxury goods, and 2% sell Cosmetic items.

Fashion Segment Distribution



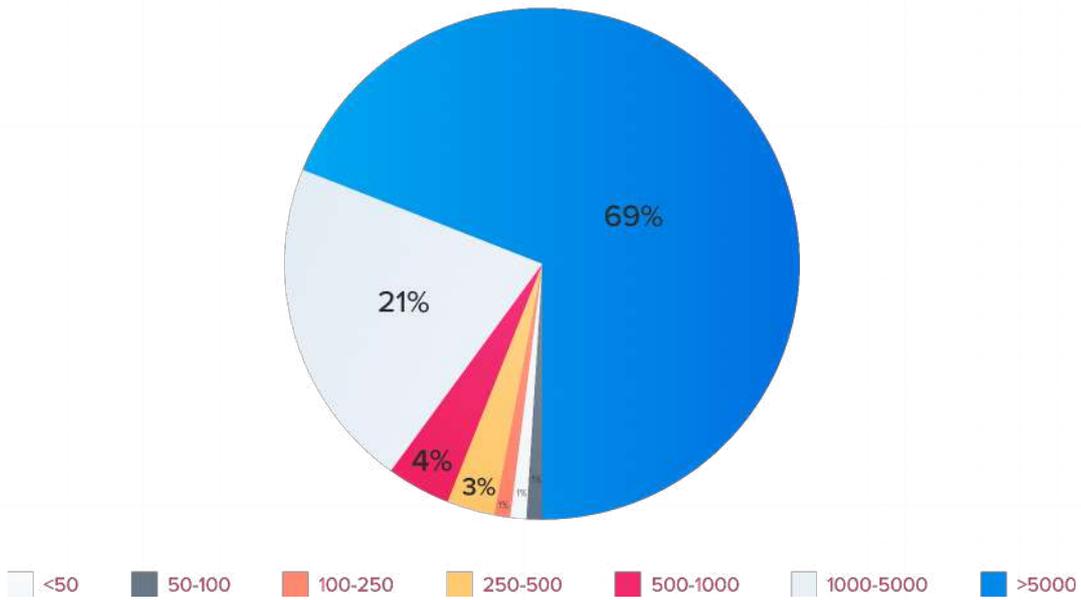
Web Sales Distribution



This graph tracks the sales incurred through the own webstore of these companies

Only 2-3% of Enterprise brands have >\$1B in online sales, which indicates that sales primarily occurs through the traditional B2B2C business model.

Catalog Size Distribution

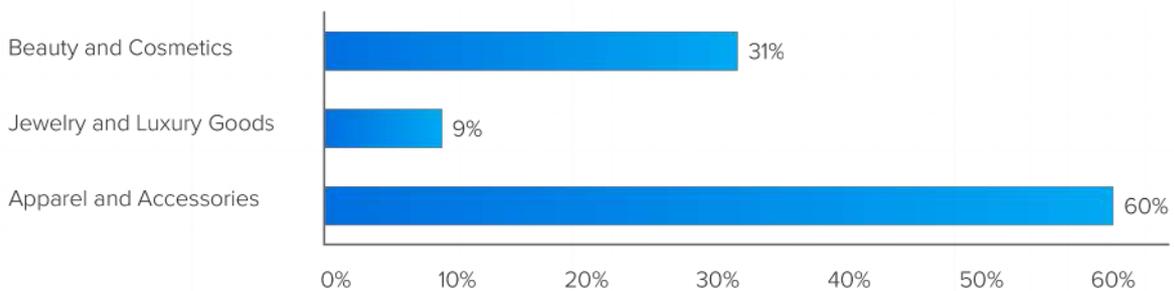


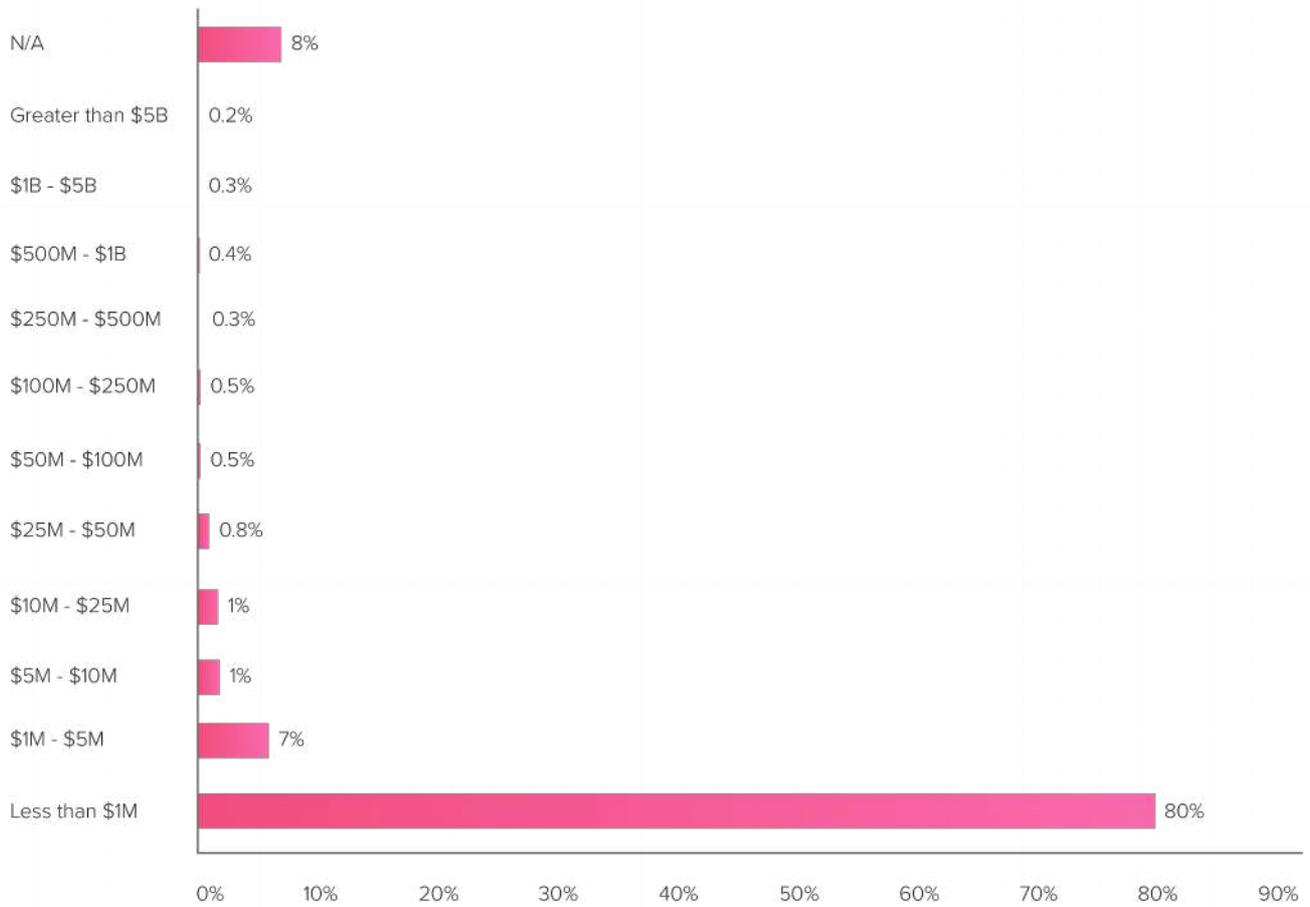
We analyzed the Catalog Size distribution and guess what? Almost 90% of all Enterprise-level D2C companies have 500 or more SKUs! And yet only about 2-3% make billion dollars or more. This is in stark contrast to Digitally Native brands, where the trend is contrary.

2. D2C Ecommerce Brands selling through their own webstore

Per our analysis, we estimate the size of the addressable market in this segment at about 20,000 companies. Diving into how these companies are split by Product Category, Catalog Size and Web Sales, we see that Apparel and Accessories dominates this segment as well, at 60%. Cosmetics comes in second at 31%

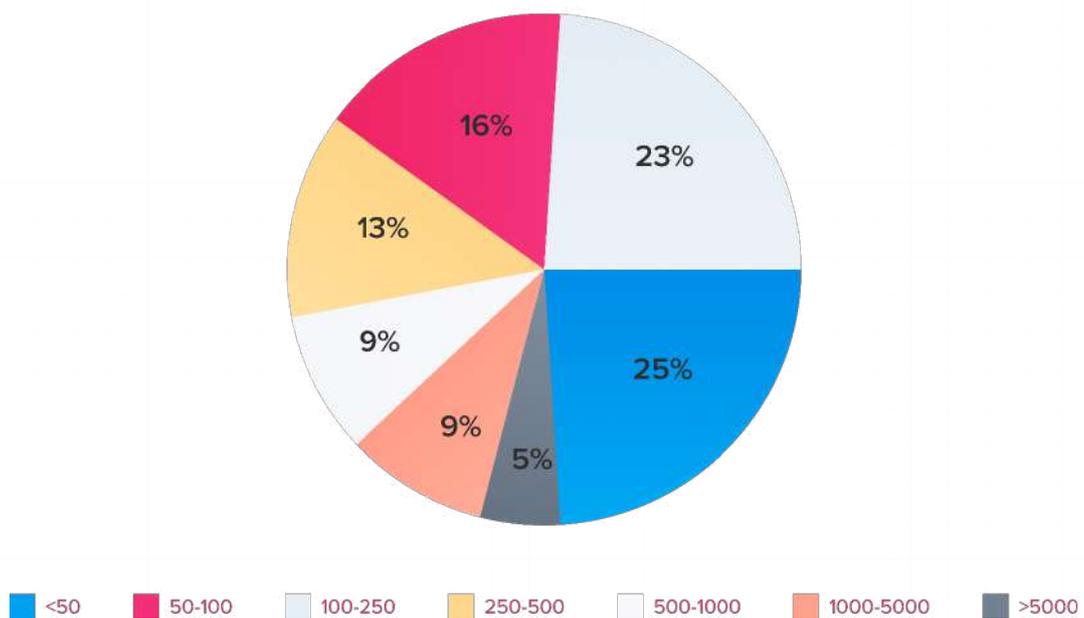
Fashion Segment Distribution





About 80% of this market – approximately 16,000 companies – is ‘long-tail’, i.e. has web sales <\$1M.

Catalog Size Distribution



23% of companies (or) approximately 4,500 companies have >500 SKUs.

3. Digitally Native Brands - DNVBs

Andy Dunn, the CEO of men’s clothing retailer Bonobos was the first one to coin the word “Digitally Native Vertical Brands” or DNVB. He said, *“The E-Commerce company is a channel; the V-Commerce company is a brand. The E-Commerce company has low margins; the DNVB has high margins. The E-Commerce company can grow unbelievably fast; the DNVB can’t grow as fast, but it’s more valuable in the long run because it’s about more than just price.”*

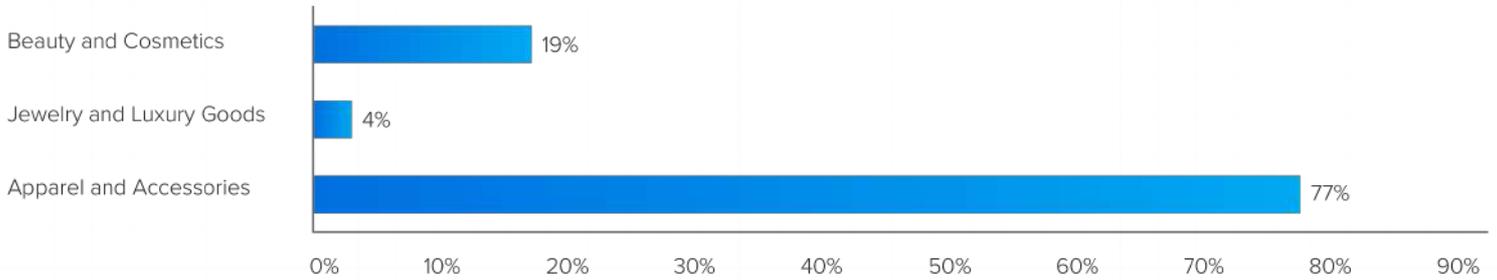
2015 and 2016 were marked by the two largest funding deals ever (Warby Parker & The Honest Company).

Below are some insights on the DNVB Fashion space.

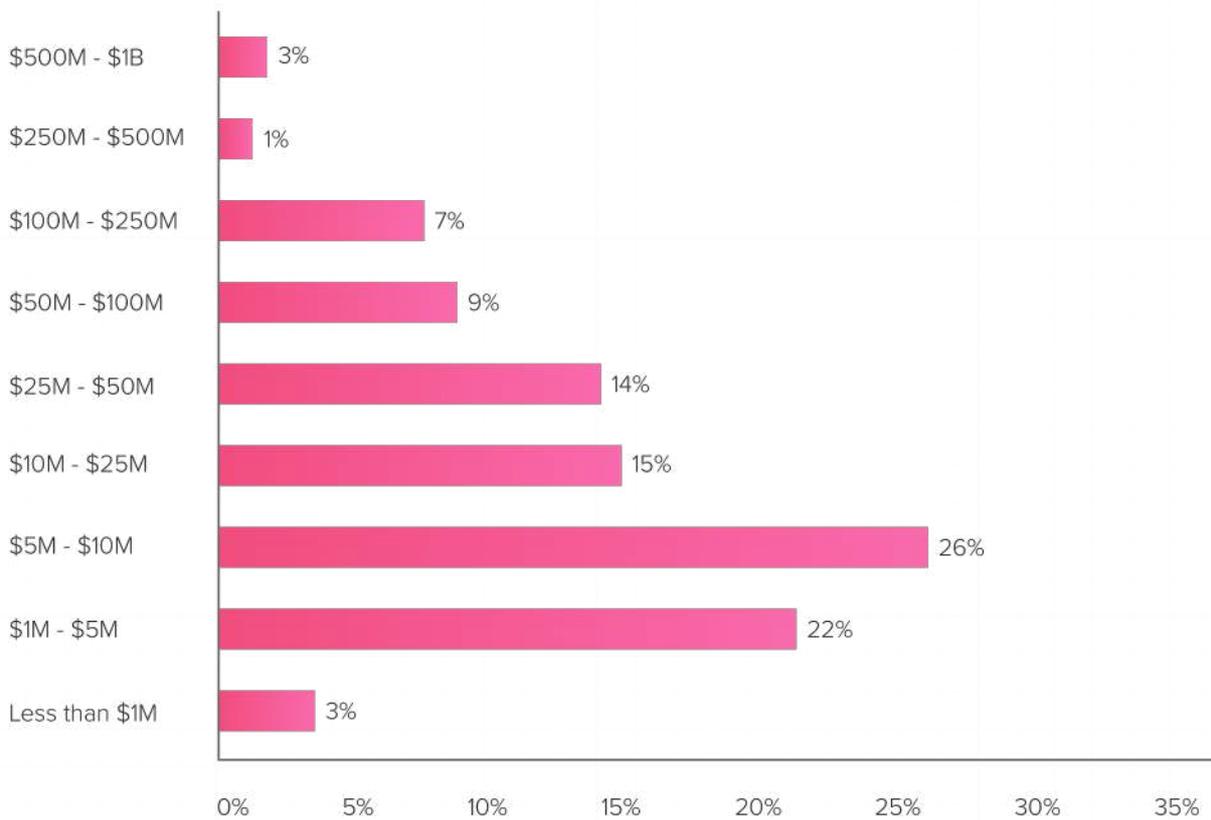
Segment	Est. Market Size – e-tail	Est. Market Size – DNVB	Major Players	D2C Growth Trends
Clothing & Apparel	\$317B	77%	AdoreMe, MeUndies, Bonobos, AYR	Growth nearing saturation in Western markets. China fast-growing. Amazon set to grab about 16% of the US 2021 Apparel market.
Accessories & Bags	\$67B		Beltology, David Kind, Sprezzabox, Warby Parker	Between 2017 and 2022, the growth rate of this segment will dip slowly than the other segments, indicating this to be the healthiest segment of Fashion.
Footwear	\$96B		Bucketfeet, AllBirds, Greats	Growth rate is expected to slow down from over 13% in 2017 to 6.6% in 2022.
Jewelry & Watches	\$9B	4%	Baublebear, Catbird, VRAI & ORO, MVMT	D2C affordable luxury segment is competing with premium luxury such as Brilliant Earth, Tiffany, Swarovski, etc. China is the top spender, rising spend coming from Middle-east as well.
Beauty & Cosmetics	\$36.5B	19%	Glamit! Glossier, Stowaway, ULTA, Sephora	APAC leads the cosmetic industry, followed by Western Europe and America. Expected growth rate is the highest in APAC and it has become the focal hub for cosmetic players.

Per our analysis, we estimate that there are about 500 companies in this segment, of which 77% sell Apparel and Accessories. The second most popular category is Cosmetics at 19%. About 3-4% sell Jewelry and Luxury items.

Fashion Segment Distribution

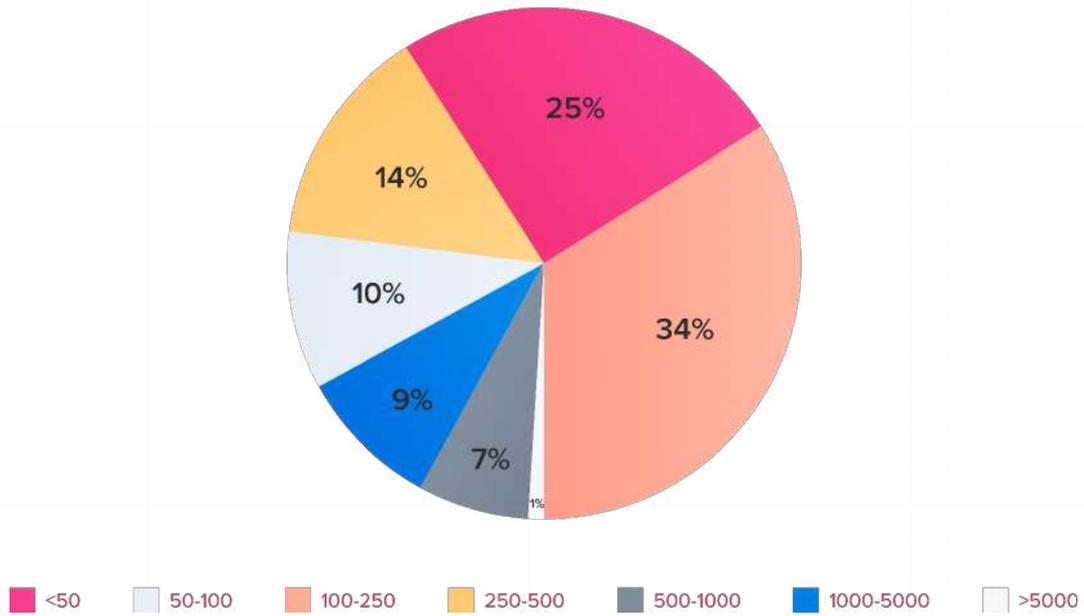


Web Sales Distribution



Just about 3% of companies in this segment make <\$1M in web sales! Interesting to see how being hyper-focused in product type, branding and customer experience pays off, unlike the previous segment where brands do not give any special emphasis on customer experience or omnichannel personalization.

Catalog Size Distribution



Going by number of SKUs, 17% of the market or approximately 80-90 companies have 500+ SKUs.

In this section, we consolidate our findings from the above analyses to visualize the Total Addressable Market and its spread across Catalog Size, Product Categories and Web Sales.



TOTAL ADDRESSABLE MARKET

TOTAL ADDRESSABLE MARKET – TAM

Total Addressable Market (TAM) is the estimated universe of companies in this market. TAM was a bottom-up exercise, where we estimated the size of each segment and then aggregated them up to arrive at the TAM for the entire market.

Web Sales, Catalog Size and Product Category distributions have been indicated as percentage of the Total Addressable Market. The same figures were represented by the graphs in the previous section.

Segment	TAM	Popular Players	Web Sales Distribution		Catalog Size Distribution		Product Category Distribution			Service Addressable Market % - based on SKU > 500 and Web Sales > \$1M	SAM Estimate
			<1M	1M+	<500	>500	Apparel & Accessories	Beauty & Cosmetics	Jewelry & Luxury		
Enterprise	300-500	Nike, GAP, Zara, Uniqlo, H&M	8%	92%	6%	94%	52%	2%	46%	~90%	400-450
D2C Ecommerce Brand Sites	15,000-20,000	Anna Sui, Baggu, Beyond Yoga	83%	17%	78%	22%	60%	31%	9%	~15-20%	4,000-5,000
DNVBs	500-1000	Warby Parker, Adore Me, Glossie	20%	80%	80%	20%	77%	19%	4%	~20%	100-200
Total	16,000-22,000										5000-6000



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