RETAIL EXECUTIVES EXPLORE HOW NEW SHOPPER BEHAVIORS WILL INFLUENCE THE DIGITAL-FIRST HOLIDAY SEASON

DTC
COLLECTIVE
est. 2020

Bringing together influential, global voices to realize the promise of digital retail and shape the trajectory of the industry.

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Table of Contents

ORIGIN OF THE DTC COLLECTIVE

The DTC Collective is a community that brings together influential, global voices to realize the potential of digital retail. The group was founded in response to three force majeures that occurred in rapid succession: the onset of GDPR in Europe, which sent retailers who sell or market on digital channels scrambling to update their communications to comply with guidelines that weren't designed in response to companies like theirs. Second was the slow and still ongoing elimination of third-party cookies by companies like Mozilla's Firefox, Apple, and soon, Google. And third was the onset of coronavirus, which expedited what many analysts had previously predicted would be a three-year journey to a 50-50 Online/Offline shift in retail.

Seemingly overnight, all retail business models--from traditional department stores and chain stores to digital natives--were suddenly operating on the same playing field for the first time in history. The founding members saw a need for a community coming together to do things differently, unlike anything of the past, in order to move into an all direct-to-consumer world and help actively shape the trajectory of the retail industry.

DTC Collective Members

JUNE

Mike Africa, VP Commerce, *Eddie Bauer*

Callie Canfield, VP Marketing & Communications, *David's Bridal*

Ujjwal Dhoot, Chief Digital Officer, *DXL Group*

Annette Dunleavy, VP Digital Commerce, *QVC*

Eric Gohs, VP of Marketing Strategy, *Lane Bryant*

Mohit Guljarani, SVP Omnichannel Strategy & Operations, *Brooks Brothers*

Dave Lokes, VP of Marketing, *Oriental Trading Co.*

Tim Mack, Chief Digital Officer, *RTW Retailwinds*

Todd Meleney, VP of Marketing, *NOBULL*

Scott Perry, EVP Digital, *Jerome's Furniture*

Sherene Hilal, SVP Marketing & Operations, *Bluecore*

Fayez Mohamood, Co-Founder & CEO, *Bluecore*

APRIL

Nick DiMarco, GM, *Hammacher Schlemmer*

Bryan Elliot, VP of Growth Marketing, *Tamara Mellon*

Eric Gohs, VP of Marketing Strategy, *Lane Bryant*

Mohit Gulrajani, SVP Omnichannel Strategy & Operations, *Brooks Brothers*

Doug Jensen, VP CRM & Corporate Marketing Analytics & Innovation Insights, *Estee Lauder*

Tim McCue, VP Ecommerce and Digital Technology, *Jockey*

Ann Marie Resnick, VP of Marketing, *Hammacher Schlemmer*

Richard Spencer, Group VP IT, Ecommerce, Data and Applications, *Belk*

Carrie Tharp, VP Retail & Consumer, *Google Cloud*

Roshan Varma, VP of Digital, *Tapestry*

Sherene Hilal, SVP Marketing & Operations, *Bluecore*

Fayez Mohamood, Co-Founder & CEO, *Bluecore*

June Executive Forum

Shopper behaviors are fleeting.

In normal times, digital brands and retailers are able to rely on a few constants: Their data can help them determine what products interest customers. If they spend $X on marketing, they can expect $Y in revenue. And when a customer buys for the first time, that customer has a certain likelihood to buy again within a certain timeframe.

All of that has changed in 2020. Retailers don't know if what they've seen from shoppers so far is a set of new and permanent habits or only temporary reactions to a global shopping shakeup.

These unknowns are among the several new challenges--and opportunities--that retailers have had to tackle on the fly this year, and will continue addressing as they enter the holiday season.

With the fluctuating state of a national and global pandemic, twelve retail executives connected virtually for the second gathering of the DTC Collective to discuss the strategies and investments that yielded success for them in the first half of the year, and their plans as retail enters what is normally its most profitable time of year.

The group represented a mix of digital-first brands and established traditional retailers who are seeing more revenue than ever come through their digital channels. The result? A mix of different perspectives on how to continue operating in a nearly 100% digital environment as store and in-person strategies continue to evolve.

The best approaches for driving growth through digital right now

There's a level of agility that comes from understanding that the fluctuations in consumer behavior will continue. The ability to operate and adapt to the unexpected introduces a foundation for growth that will thrive no matter what the state of the consumer.

Members of the Collective explored how they're identifying short-term opportunities. For many, their primary focus is on measuring the incrementality, which is the lift in a desired outcome, like revenue, from a marketing activity, driven by digital and using that information to guide plans for the next 6+ months. Across the board, retailers are working to introduce plans that are fluid in nature, knowing that the path forward is riddled with ambiguity.

Use incrementality as a leading indicator of success.

"I can't think of a better metric to judge performance than incrementality."

With virtually all sales funnelling through digital, the question everyone wants to answer is, "How many incremental sales are being driven online?"

Without incrementality, brands cannot determine if they have attracted store shoppers who are buying for the first time online or if they're attracting shoppers who have always shopped online. For example, brands are now seeing older demographics, once hesitant to buy online, now fully embracing it. This type of understanding becomes instrumental in securing more budget for the strategies that drive the most performance. It also helps shape the new role of a store in a digital-first environment and allows better communication with consumers.

Recognize which new customers have staying power and which are fleeting.

"How much of this new business were we successful in acquiring and how much of it was from customers who found us to serve a temporary or one-time need?"

Digital acquisition has been through the roof for many brands, but they would be fooling themselves if they thought all of the sales they were experiencing were not at least partially due to the environment. For example, many brands saw online revenue spike when government stimulus checks hit consumers' bank accounts. Brands can distinguish between real and fleeting acquisition quickly if they are sophisticated in their incrementality measurements and can determine who their best new customers are by looking at measures such as predicted lifetime value and likelihood to convert.

Optimize for customer lifetime value with margin-based bidding and value-based audience segmentation.

Customer lifetime value is emerging as one of the more reliable benchmarking metrics for brands. With consumer behaviors changing quickly and unpredictably, taking an analytical approach and prioritizing lifetime value over simple campaign-based ROI, has helped establish true incrementality, better pay back on acquisition, and what many brands and analysts believe will be a faster recovery for the business. As they approach the back half of the year, brands are evaluating and testing technology that gives them the ability to act on these opportunities through tactics such as margin-based bidding, where recommendations for higher margin products are surfaced to shoppers, and value-based audience segmentation, for example, targeting active buyers or those with discount affinities for recently marked down products.

Take advantage of lower paid media costs.

“Paid media has become more efficient since costs have gone down and the customer is spending more time online.”

The influx of first-time buyers online and shoppers’ increased willingness to try new things has inspired brands to pivot their budgets back to acquiring new customers and even re-engage those who have lapsed, an area that some brands originally pulled back on due to high costs and low conversions.

The overall decline in media costs, especially on channels like Facebook, which was on a steep incline pre-COVID, coupled with no longer having to bid, at a local level, against businesses that are currently closed, has yielded greater efficiency of paid media dollars for retailers selling on digital channels.

Double down on direct community engagement.

Email continues to be a standout amongst the marketing mix. Brands leverage this channel to provide opportunities for repeat purchases with relevant product recommendations while also fostering a certain level of community engagement that connects dialogues occurring on social media to the brand’s website. Historically, email has been the channel of preference for consumers, so brands are looking closely to see if this dynamic shifts in the current climate.

Building the foundation for a digital-first environment

As brands develop a better understanding of their immediate opportunities, they are starting to solidify their long-term investment priorities and prepare for a holiday season that centers around supporting the longevity of the business. This involves driving faster payback on acquisition costs, increasing team productivity and reducing cost, increasing revenue through programs that drive incrementality, and maintaining agility to test-and-learn in an unpredictable environment.

Retention above all.

“Our focus now is on retaining the new customers that tried our brand during this time and giving them experiences that make them stick.”

Even with media costs going down, securing faster payback on acquisition costs is still a major concern for brands, especially as driving capital efficiency remains an important priority during this time. Brands focused too heavily on acquisition typically increase their promotions, discounts, and send volume of campaigns in order to sustain growth, which leads to a steep drop-off between first and second purchasers and a low return on ad spend. Brands that are consistently optimizing for retention and lifetime value, by focusing on personalizing shopper touchpoints and developing loyalty programs that drive repeat business, are seeing 10x more profit.

Adopt technology that moves at the speed of the consumer and drives more performance over time.

“We’re working with every technology partner to anticipate what scale might look like. Everyone thinks about the novel solution, but what’s the practical solution with the timeline you have?”

Anticipating what the holidays and beyond might look like will not matter if brands cannot respond to customers quickly. Brands are prioritizing technology investments that can move at the speed of the consumer, solve real-life problems for the business such as margin preservation, and drive increased performance. In most cases, this is leading to the consolidation of the martech stack in favor of modern technology built with key capabilities, such as retail-specific AI/ML for 1:1 personalization at scale.
In search of this type of technology, brands are forgoing the traditional request-for-proposal (RFP) process for quick to market proof-of-concepts (POCs) to ensure investments yield a significant return quickly.

Test and learn and keep discovering what works.

“We’re accelerating everything we can possibly test in July and August.”

As lockdown flip-flopping continues and the digital momentum increases, brands have never been more adamant to TEST, TEST, TEST in order to have some reasonable estimation of what to expect from October through December. Especially in areas that require more long-term planning and are less nimble, such as direct mail, the Summer is the time to prove things out and walk into the holidays with some degree of certainty for the marketing strategy. For some brands, this involves creating agile marketing task forces or hybrid groups to run sprints that test different technology, strategies, campaigns to determine where to double-down.

Be cognizant of how the decisions you make now may affect planning for the rest of the year.

“If merchandising is cancelling orders for inventory that would have been in stores right now, that same inventory will be left to sell in the back half of the year”

Most brands are battling a number of inventory and supply chain issues, from not having enough inventory to having an excess of it and not being able to get it to customers. While brands are making sell-through decisions like reallocating store inventory to the warehouse to generate cash from online orders, they are also faced with the long-term implications of decisions such as cancelling orders, which leaves brands with a high level of inventory to sell in a short time period. The type of situation leads to issues with margins as brands typically look to discounting and channel partners to offload inventory, thus sacrificing the bottom line. Brands are tackling this issue with digital communications that create the appearance of scarcity (i.e. merchandising notifications such as low-inventory triggers), recommend products based on a combined understanding of margins and relevance (i.e. margin-based recommendations), and only surface discounts to shoppers who need them to convert (i.e. discount affinity campaigns).

Determine your brand's position on social responsibility.

"We typically lean into holiday to tell our most inspirational stories. This year, we are focusing on moving forward as a diverse community."

Brands are becoming increasingly aware of how they influence the community and what their responsibility is or could be as change-drivers in the diversity and inclusion movement. For some brands, this has involved thinking through the social responsibility of a brand born on social media and how to handle that. It also involves unifying internally on goals in support of one another, as well as externally elevating the everyday humans behind their brand with user-generated content to bring the community together. Overall, brands are acknowledging the unique combination of circumstances of the pandemic and the social unrest everyone is experiencing in varying ways.

Start to integrate your digital and in-person strategies.

"With all stores closed to customers, we got 30-35% of our revenue selling over FaceTime."

Even with the accelerated shift online, stores continue to serve a purpose - as long as there is clear value for the customer. In the case of a highly considered purchase such as furniture, where the store is a forum to educate the consumer and help them find what's most suitable for their homes, we are seeing greater integration of digital to support that end. With the touch of a button, sales people can convert a chat inquiry from the website into a video call in the store, replicating the one-to-one service a shopper would normally experience when browsing in person. As the digital and brick-and-mortar worlds merge, brands are anticipating that shoppers will come to expect these types of accommodations and are building these strategies into their long-term plans.

Be prepared for a potential decline in consumer spending.

"We're fully anticipating some sort of recessionary situation in Q3/Q4 and we're planning for that."

Even with U.S. eCommerce sales up 18%, brands are bracing for a potential change in consumer behavior that is not in their favor. The joblessness of some consumers does not seem to be reflected in consumer spending...yet, and when unemployment benefits expire, brands may see some online activity dry up. In this scenario, brands are looking even more closely at retaining their most valuable customers and identifying the cohorts of consumers who are not experiencing the negative economic effects of the pandemic, including buyers who are "revenge-spending," or shifting what they would normally spend on travel and dining are now shifting to luxury brands for example.

Rethink the value of the store from the ground up.

If you need to put countless safety measures in place to protect people when stores reopen, you have to think through why people would come in the first place when they could just order online. This, coupled with the reality that some brands do not have enough online sales to justify the cost to run stores, forces them to rethink their purpose.

Pop-up stores and the idea of "experience shops" are emerging as alternatives. This approach began gaining traction prior to COVID, but its adoption is being expedited as a result. The idea of using physical retail spaces as experiential channels instead of commerce channels shifts the purpose of stores to helping shoppers discover, and learn and try products, rather than today's status quo of stocking inventory for a limited number of products.

Microsoft's shift from retail stores to Experience Centers is a good example of this, providing shoppers an opportunity to touch, feel and discover new products in-person, with the purchase occurring online. We are also seeing Nike take on a similar strategy with the introduction of its new store concept, Nike Rise, which relies heavily on digital and shopper data to drive experience and allows the brand to draw more consumers into the Nike community.

For inquiries related to the DTC Collective and becoming a member, please **visit our website**

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