THE REALITIES OF THE DIGITAL-FIRST HOLIDAY AND THE MAKINGS OF NEXT YEAR'S RETAIL REGENERATION

DTC
COLLECTIVE
est. 2020

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

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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: First was 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.

October Executive Forum

The first digitally dominant holiday season lays the groundwork for ~~*transformation*~~ regeneration.

"Digital transformation" has been underwhelming to execute against because it's narrowly defined by technology upgrades to cater to more people buying online. There are actually different flavors of transformations, or rather, "regenerations," occurring that involve a re-architecting of organizations and investments in addition to technology - and a successful retailer will be "regenerative" in that it will not only be a sustainable and resilient business, but it will continue to create value for its customers over time: constantly learning, growing, improving. We are seeing regeneration take on different forms in the industry:

- The DTC-offensive: Proactive acceleration of a direct-to-consumer approach (i.e. Nike's Consumer Direct Acceleration strategy) which is coupled with an update to distribution partners, supply-chain, and offer management.
- The private equity-led resurrection: A financially-driven strategy to "clear the deck" and make way for massive efficiencies and a technology over-haul. (i.e. Brooks Brothers bankruptcy and sale to SPARC group)
- The digital-first shift: Business growth that is eCommerce-led and drives store and partner strategies (i.e. H&M closing stores and ramping up online)

These different regenerations strategies occur for a variety of reasons, but all with the same goal of capturing the seemingly endless opportunities of the digital-first world with an imperative to redefine the purpose of traditional channels.

With the first digitally dominant holiday season in motion, retail executives connected virtually for the fourth gathering of the DTC Collective. They discussed the current state of the holiday season, where they see the most optimism for the coming year and what keeps them up at night as we turn this corner. With this in mind, they defined their paths to regeneration with respect to their marketing strategies moving forward.

In this report, we'll share the most important takeaways from their conversation. Due to the candid nature of the material discussed, we have not attributed the included quotes to specific executives. All participants, however, are listed at the end of this report.

What's the pulse on the holiday season thus far?

Record-breaking Halloween sales gives signal to a potentially strong holiday season ahead

Despite the pandemic's quashing of parties and gatherings, the Halloween spirit was alive and well and led to record-breaking sales. Specialty stores saw 45% YoY growth and captured a younger audience than usual, bringing in new first-time buyers and revealing more retention opportunities. Since Halloween is the first stop in the holiday season, the success here is a good sign for the role of the holiday season in helping brands regenerate into the coming year.

Continuous shipping and fulfillment issues are leaving brands managing logistics and cost more closely

Shipping carriers are still feeling the pressure of online ordering and rates are rising to meet the demand, affecting retailers' bottom line. Brands are looking to re-negotiate rates and contract terms with current carriers while diverting shipping to other carriers or handling fulfillment in stores in the meantime. To manage this, teams are conducting daily standups to make sure packages are being funneled to the right places and SLAs are being met by carriers. Brands are hesitant to pass any additional cost onto the consumer, remaining cognizant of the hyper-competitive market, and instead look to leverage cart thresholds for free shipping (i.e. Free Shipping for 50+) and 1-click upsells or "check-out cheepos" to increase average order values (AOVs) to make up the difference.

There’s no such thing as too much communication with respect to shipping

Empathy and open communication remain paramount as brands brace for shipping delays. They are being explicit about possible slowness at every possible touchpoint. This means, letters from retailer CEOs acknowledging the situation, updating shipping notifications via email and SMS as necessary, and proactively communicating the last day for orders to receive packages in time for the holidays. In addition, many brands are emphasizing their free shipping offers to make sure shoppers are aware of the perk, thus providing added value and a positive experience.

> “Consumers understand the current shipping situation, so lean into that, set low expectations and over deliver.”

There’s more opportunity to offload excess inventory

As consumers look to buy gifts for themselves and others, brands are using it as an opportunity to clear inventory and make space for new merchandise. Retailers are pacing two-for-one promotions to offload without training the shoppers to expect regular discounts and also promoting “mystery boxes” or “grab-bags” with a mix of surprise merchandise to liquidate items.

> “There’s been a lot of buzz around the pull up of holiday demand, but it doesn’t seem to be widespread.”

Consumers are buying earlier but not in droves (yet)

In anticipation of shipping delays and in conjunction with the new buying holidays declared by the likes of Walmart, Amazon and Target, early holiday shopping has begun, but **58% of shoppers still have not started**. Brands are launching gift guides earlier than usual and “buy now, don’t stress later” campaigns to reinforce more early buying and spread out the demand.

The headwinds and tailwinds of the newly designated holidays are proving fruitful

While media was expensive on the two Amazon Prime Days in October, the days pre and post were more manageable and yielded valuable traffic to eCommerce sites. Continuing to capitalize on the early “holidays” driven by the bigger brands is another way brands are reinforcing early buying and new customer acquisition.

What are retailers most optimistic about for the coming year?

The acceleration of vision and more appetite for change

COVID-19 has spurred the necessity for innovation. Even brands emerging from bankruptcy are leaning into developing a tighter brand strategy and investing in a business model that is digital-first by scaling personalization and segmentation. For many retail marketing leaders, this is the most exciting place they have been in their careers, giving them the ability to move faster with things like incrementality testing in order to determine how to spend money more effectively and shine a clearer path on a quantifiable journey to acquisition and growth.

Being well-positioned to grow with a direct-to-consumer approach

Leveraging digital channels to identify shoppers, uncover their needs and preferences, and connect directly with them, has given brands the ability to produce revenue in a short time period. Understanding customer needs has even revealed opportunities for new product lines, such as merchandise supporting frontline workers and apparel for socially distant activities, such as golf. With a direct outlet to the customer, brands are uncovering ways to be closer to shoppers, wherever they are, and engage more actively with that community.

More confidence in what works and what doesn't in the current environment

The toughest part is over. The past several months have produced so many roadblocks, challenges, and opportunities that brands now have an arsenal of experience to better plan for the path forward. Brands are willing to invest in the future because eCommerce is up and there is line of sight into an improved state of retail. This means changing direction and moving with the times, including shifting the focus of merchandising (i.e. formalwear to sportswear), shifting the focus of marketing (i.e. volume-based strategy to performance-based strategy), and shifting the focus of teams (i.e. channel-based to audience-based).

> “*We have ownership that is willing to invest in a difficult time because they know the demand will come back.*”

What are retailers most pessimistic about for the coming year?

The competitive dynamics of a digital-first world

Shoppers are now one click away from another brand, so capturing market share in a heavily populated category is that much more challenging. And to compete intelligently, brands not only realize they need to understand their customers, but they also need to understand their direct competition. Retailers are leaning into data to back up or refute their assumptions about their competitive set to ensure they understand who they are up against. One approach is comparing free market data against customer survey data - if the insights align, it provides a directionally sound path forward.

Volatility of advertising costs

The cost of ad spend was already on the rise pre-COVID, but the mass migration of online shopping has compounded the issue. This is especially challenging for brands driving traffic to their eCommerce sites primarily through Facebook and Google. The necessity for acquisition as well as the preservation of margins (not to mention the ability to forecast cost), is forcing brands to be more focused with their ad spend: for example, targeting shoppers with a high predicted customer-lifetime value (CLV) and surfacing ads based on predicted affinities, like category or discount preference. These strategies yield a better return on ad spend (ROAS) as well as a more relevant experience as shoppers become more aware of spam-like advertising tactics.

> “The CPM volatility of 2020 is crazy — brands are spending millions of dollars on advertising and it needs to be tied to P&L.”

Offsetting stagnant mall and store traffic

Many brands pre-COVID were heavily reliant on store revenue - and while power centers (shopping areas anchored by a grocery store and a TJ Maxx-like shop) seem to be doing the best - the traditional store traffic has yet to return. With the uncertainty surrounding the next waves of COVID-19 and the arrival of a vaccine, brands are determining how long they can sustain in the current state and are looking for ways to make up for the traffic shortfalls.

Infrastructure to support the supply chain

As eCommerce demand inevitably continues to grow, the current infrastructure meant to support the retail supply chain needs to adjust to the increased demand. Some brands are having a difficult time securing products in certain categories and are left figuring out how to fill the gap. These manufacturing and distribution issues, coupled with the growing shipping and fulfillment challenges, have left brands uneasy about the ability to deliver upon consumer expectations.

What does the path forward to digital transformation, or regeneration, include with respect to marketing?

Reorienting from a store-centric approach to a customer-centric approach

Retail marketing teams have traditionally been oriented around servicing stores. This involved setting the marketing calendar and campaigns for the entire year primarily to encourage in-person buying. Now brands need to meet consumers where they are across a variety of digital channels and stores are evolving away from transaction centers to showrooms and experience centers that support lead generation and online conversions.

Technology that supports a business case

Retailers are thinking much differently about technology. The way data is stored and used has changed quite a bit over the years and technology has been slow to support the shift. As the technology landscape evolves to that need, for example, with marketing clouds acquiring or building systems to resolve the customer data problem, brands look to modern systems to support critical business objectives and align with the needs of their teams. These systems are built to drive retail performance and goals (repeat purchases, margin preservation, and product discovery to name a few), can support quick to market proof-of-concepts (POCs) to ensure investments yield a significant return, and give teams more strategic autonomy without heavy implementation.

> "The older systems don't allow for flexibility for what retailers do very well, which is change their minds very often."

Decentralization of content creation and design

Without the ability to leverage full production services for creative, brands are taking an out-of-the-box, modular approach to content. Many are building non-traditional banks of assets from user-generated content and at-home or real-life photo shoots, for example, to plug and play into home page blocks, dynamic email templates, and Facebook or Instagram. In some cases, this also means individuals dedicated to deciding how these assets are being used per channel, realizing that each channel has nuance to its success.

Quick pivots on investments

The dynamic nature of the current environment lends itself to opportunities emerging just as quickly as they disappear. In order to seize these opportunities as they present themselves, brands must have the flexibility to shift or double down on investments quickly. For example, recognizing an increase in first-time buyers and surrounding that cohort with relevant ads, emails and communications to encourage a second purchase. This often requires a daily touch base with the finance department to present the business impact of a new tactic and secure budget.

Teams comprised of flexible leaders and strategic partners

Brands are discovering what their current teams are really good at and adding talent around that. This sometimes involves testing key leadership positions with consultants and determining who can work outside of their typical expertise to balance the needs of the business. In addition, brands have become increasingly reliant on outside agencies and technology partners, revealing critical expertise in areas such as copywriting, data insights, and AI/ML that allows teams to move at the speed of the consumer and meet goals more effectively.

> "We are taking fewer, but focused swings - focusing on the importance of consistently leading with empathy and appropriate messaging for each individual."

Hyper-cognizance around relevant messaging and communication of brand mission

With the current socio-economic climate and the massive shift online, consumers are paying closer attention to brand values and the relevance of their communications, thus influencing their willingness to buy. As such, brands are taking care to engage very deliberately with consumers, taking their preferences and the context in which they are shopping into consideration to create authentic loyalty and include them in their brand community.

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