Direct Brands 2018
Founders' Insights

NEW YORK • OCTOBER 31, 2018

The Direct Brand Initiative Strategic Partners:

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DIRECT BRANDS TO WATCH

APPAREL/FASHION

ADORE ME, allbirds, ALLISON MITCHELL, ALLUME, AMERICAN GIANT, ASHLEY STEWART, AYR, BAUBLEBAR, BESPOKE POST, Betabrand, BOMBAS, BOMBFELL, BONOBOS, bucketfeet, BUCK MASON, CARBON38, chubbies, CLIQUE MEDIA, COMBATANT GENTLEMEN, cotopaxi, CUYANA, DAGNE DOVER, Dia & Co, DÔEN, DOLLS KILL, DSTLD, Ellie, ELOQUII, Ernest Alexander, EVERLANE, FAME & PARTNERS, FABLETICS, FARFETCH, FIVE FOUR GROUP, FOOT CARDIGAN, For Love & Lemons, Frank And Oak, GRANA, GREATS, gwynnie bee, HARPER WILDE, HUCKBERRY, HUDSON SUTLER, INDOCHINO, J. HILBURN, JACK ERWIN, JACK THREADS, Julianna Rae, KNOTSTANDARD, KOIO, KUIU, LE TOTE, LEDBURY, LINJER, LIVELY, Lolly Wolly, M.GEMI, M.M. LAFLEUR, MACK WELDON, MEJURI, MeUndies, MINISTRY OF SUPPLY, MIZZEN+MAIN, monica + andy, MOTT & BOW, MVMT, NASTY GAL, Olukai, Outdoor Voices, PACT, Paul Evans, ploeh, primary, PROPER CLOTH, RATIO CLOTHING, Reformation, REVOLVE, ROCKETS OF AWESOME, rocksbox, ROTHY'S, SHOES OF PREY, SOLE/SOCIETY, STANCE, STITCH FIX, SWIMSUITS FOR ALL, TAMARA MELLON, tea, THE BLK TUX, THESIS, THIRDLOVE, TOMBOY X, Tommy John, Tracksmith, TRUE, TRUE FACET, UNTUCKit, VIVOBAREFOOT, WANTABLE, WARBY PARKER, WHIPPING POST, yellowberry

AUTO

Faraday Future, LUCID, TESLA, ZOOX

BABY CARE/PARENTING

4moms, bluum, happiest baby, Owlet, The Honest Company

BUSINESS & CONSUMER SERVICES

ARTLIFTING, BOON+GABLE, GLAM SQUAD, ziel

FOOD & BEVERAGES

ALOHA, BEAN BOX, Blue Apron, bocandy, BULLETPROOF, Bulu Box, CALIFIA FARMS, CANDY CLUB, care/of, core, DAILY HARVEST, DESERT FARMS, DIRTY LEMON, ELYSIUM, FOOD52, FRESHLY, gobble, graze, HALO TOP, HEALTH-ADE KOMBUCHA, Hello Fresh, hint, HOME CHEF, HUNGRY HARVEST, HVMN, KETTLEBELL KITCHEN, Love with Food, naturebox, noom, Plated, PRE, Prepd, ripple, soylent, SUDDEN COFFEE, SUN BASKET, truBRAIN

CONSUMER ELECTRONICS

EARGO, Kolibree, MOMENT, ORA

HOME & APPLIANCE

BOLL & BRANCH, brooklinen, BURROW, Casper, dormify, EARTH, FLOYD, GROVE, HELIX SLEEP, KEETSA, leesa, PARACHUTE, SIMPLY FRAMED, SNOWE, Spoonflower, SWOON, TUFT & NEEDLE, tylko, UGALLERY, yoga home

ALCOHOL

BRIGHT CELLARS, Flaviar, Winc

WELLNESS & FITNESS

Brilliant, CAIRN, ora, PELOTON, Ritual, SOLÉ

SPORTING GOODS

ROKA

RETAIL

BOXED, breo, cafe press, Craftsy, FANCHEST, Globe In, InfiniteBuyer, Jet, LOOTCRATE, minted., POSHMARK, SUPERBALIST.COM, Bouqs, THREDUP, THRIVE MARKET, TOUCH OF MODERN

PET CARE

BARKBOX, ollie, THE FARMER'S DOG

PERSONAL CARE

BEAUTYCOUNTER, BIRCHBOX, BOXYCHARM, CUROLOGY, eSalon, fabfitfun, FACETORY, FATCO, function of beauty, Glossier., GLOSSYBOX, GOBY, HARRY'S, HUBBLE, hush., JULEP, KOPARI, LOLA, MADISON REED, MEMEBOX, OARS + ALPS, PINROSE, quip, REN CLEAN SKINCARE, revitin, RODAN + FIELDS, Skincential Sciences, TEADORA, THINX, WALKER AND COMPANY

TRAVEL & HOSPITALITY

AWAY, bluesmart, cabeau, RADEN, PARAVEL, Tortuga

TOYS & GAMES

bitsbox, Goldie Blox, green kid crafts, pley, TOYMAIL

Indirect Brand Economy, 1879 - 2010

"Indirect Brands" are characterized by value-creation based on dominating O&O, high-barrier, capital-intensive supply chains with value extraction accomplished through a series of third-party handoffs (brand to publisher to retailer).

Direct Brand Economy, 2010 -

Direct Brands create value through low-barrier, capital-flexible, leased or rented supply chains, with value extraction accomplished primarily through the direct relationships between the company and its end consumers.

What are Direct Brands?
How do they behave?
How do they sell?

~50 CXOs

- 1:1 interviews
- Founder survey
- CXO Roundtable

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the survey remains open & we are sharing back results

www.iab.com/db/founders-survey

PART I: What are Direct Brands?

direct brands are born to disrupt

- 97% of respondents list **"category disruption"** as their goal

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- <10% are using **value** pricing alone as a differentiator
- More than half say they're positioning their products as **premium brands**
- **40% are straddling both**

"direct brands = value + premium"

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"direct brands are in every aisle"

- More than one-third of respondents are in **health, wellness, & beauty**
- 25%+ are in apparel, fashion, jewelry
- 20%+ are in **food & beverage**
- Nearly 40% of respondents selling across **multiple product categories**

- Almost two-thirds of respondents identify **"revenue growth"** as a top 3 KPI
- Average **gross margins** are ~50% and EBITDA margins are <10%
- ~25% were profitable in 2017 and **90%+ of respondents expect to be profitable** by 2019

"direct brands are profitable"

direct brands are not tech-led, they're marketing-led

- ~20% of founders worked in tech before founding their brand
- Almost 40% of founders say "innovation" is **main success** driver
- Founders say marketing is their most critical business function
- Valuations for respondents are ~4-5x revenue → in-line with **fast-growth CPG** companies

www.iab.com/db/founders-survey

PART II: How do Direct Brands behave?

"fast is the new fashion… in every category

- Average time to launch first product was **7 months**
- Today they can launch a product in **4 months**
- One-third of founders say their biggest mistake is moving too slowly to **iterate the core product** or change the portfolio"

www.iab.com/db/founders-survey

- 92% of respondents consider customer service a top 3 business-critical capability
- Every role is a customer service role
- "Listening" to the customer re-defines the **brand's identify**

servicing customers is in their DNA

finding talent
is a challenge

- ~50% of direct brands say they hired the wrong people

PART III: How do Direct Brands sell?

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"selling products …not always subscriptions"

- Approximately two-thirds of direct brands follow a "CPG" sales model
- Only one-third of respondents are **seeking subscribers**

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- Half or more use **content marketing**, editorial, PR, organic social to market
- 78% of respondents use email marketing for their products
- But **only 22%** deploy SEO

"this isn't DR…
it's branDR"

disruptor brands are DIY – or use disruptor agencies

- Almost 60% say they do **not use agencies**, but rather do all their marketing themselves
- Only 11% say all their marketing goes through agencies

- ~50% of marketing spend goes to Facebook
- 40%+ have customer acquisition cost management as a top 3 KPI
- Respondents are testing ~3 **other marketing channels**

"we love Facebook… but *it's complicated*"

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"e-commerce is dead… long live omnichannel"

- 100% of respondents say their owned web channel is core to their retail strategy
- Over 50% of direct brands are either selling goods in **owned retail** or plan to within 12 months

- Fewer than 20% of respondents consider Amazon a threat
- 31% are not selling on Amazon
- 39% are selling on Amazon or plan to within the year
- 58% say **CPG companies** are main competitors

"Amazon's not a 'frenemy'… it's just another channel"

IAB 250 2.0
ALM 2019

Direct Brands Consumer Study (2019)

Direct Brands Market Study (2019)

Partners' Direct Brands Days (2019)

Direct Brands @ Cannes (2019)

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we are keeping the survey open & sharing back results

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Thank You

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