

/// omnilytics

JANUARY – MARCH 2020 • DIRECT-TO-CONSUMER

# Direct-to-Consumer Brands Amidst the COVID-19 Crisis

Introduction | Early Success | Struggles & Covid-19 Impact |  
Performance Overview | Covid-19 Response | Key Learnings |  
Conclusion

Written by Ashley Looi Yen Wei, Business Intelligence Analyst



## Introduction

The direct-to-consumer (DTC) model has been a major disruptor in retail, stealing market share from legacy brands. DTC brands cut out the middleman by manufacturing and shipping their own products.

[Nearly \\$4 billion USD of capital](#) has been invested in DTC brands in the past 10 years. Brands like the Honest Company, Harry's and Allbirds were among the pioneers of the DTC model. The creative story-telling and emphasis on digital marketing carried out by DTC brands were the early factors of success for the business model.

However, the cost of digital advertising has increased tremendously in recent years – DTC advertising spend [increased by 50% in the past year](#). The rising customer acquisition cost has forced DTC brands to adapt to the competitive retail landscape. DTC brands have acclimatised by opening brick-and-mortar stores and partnering with retailers like Nordstrom and Selfridges.

When faced with the Covid-19 crisis, DTC brands were among the brands to announce [store closures](#). How do these brands pivot their marketing and distribution strategies to address this issue?

More than 4,300 data points were screened from January to March 2020 across Everlane and Reformation in the US and UK markets to observe their response to the Covid-19 crisis and the key learnings.

All data used in this report comes from products retailing online as tracked by Omnilytics, unless otherwise mentioned.



## Early Success

### Compelling Brand Story/Messaging

In order to compete with legacy brands that have been around for decades, DTC brands are expert storytellers. Everlane emphasises its use of ethical factories, complete with information on each factory. Reformation tells a story of sustainable fashion through the use of natural fibres that are renewable and plant-based as well as recycled fibres. The details of the different fabrics, along with their fibre standards are made available on Reformation's website.

### Price Transparency

Leveraging on the DTC concept, Everlane takes the opportunity to show customers its cost breakdown along with a price markup comparison against traditional retailers. Everlane reveals that its prices are half of what traditional retailers are charging. The radical transparency creates value, drawing customers away from legacy brands and towards Everlane.

### Social Media Advertising

In the beginning, DTC brands focused their digital marketing efforts on social media to increase visibility. Consumers would be bombarded with ad banners and sponsored posts. This combined with the compelling storytelling by DTC brands contributed to their large success.

However, not only was this high cost of customer acquisition not scalable, but DTC brands have begun to face issues concerning securing funding from venture capital companies due to over-investment. Profits are insufficient to cover the rising cost of digital advertising.



# Struggles & Covid-19 Impact

## Increasing Customer Acquisition Costs

The increase in demand for digital ad space has caused prices to inflate and DTC brands are feeling it. DTC advertising [increased by 50% in the past year](#). As a result, the cost to acquire each customer has followed suit.

## Competitive Retail Landscape

Brands and retailers are becoming more digitally focused during the Covid-19 crisis, putting all their efforts into their e-commerce channels. As the retail landscape becomes more competitive, Everlane and Reformation have to ensure that they stand out among the noise.

## Brick-and-Mortar Store Closures

There has been a decrease in foot traffic due to the Covid-19 crisis, with quarantine measures carried out in various countries. Everlane and Reformation have announced that their physical stores will be closed until further notice. The foresight of Reformation to widen its distribution channels has paid off during brick-and-mortar store closures. The brand's partnership with Nordstrom and Selfridges helps to increase brand visibility – extremely crucial during the Covid-19 crisis. Everlane only partnered with one retailer – Nordstrom.

## Disruption to the Supply Chain

As the coronavirus situation picks up in the US and UK, quarantine measures have been imposed. Reformation closed its Los Angeles factory and distribution centre, following California's 'Safer at Home' order. President Trump also recently extended the US social distancing guideline until 30 April. These disruptions will lead to supply chain bottlenecks, causing lead times to increase.



## Performance Overview

Reformation will potentially struggle with its newness launch schedule during this period. The current status of its supply chain may not allow for Reformation to maintain its high new-in rate. If the brand were to maintain its historical newness throughout the crisis, it might run the risk of being understocked.

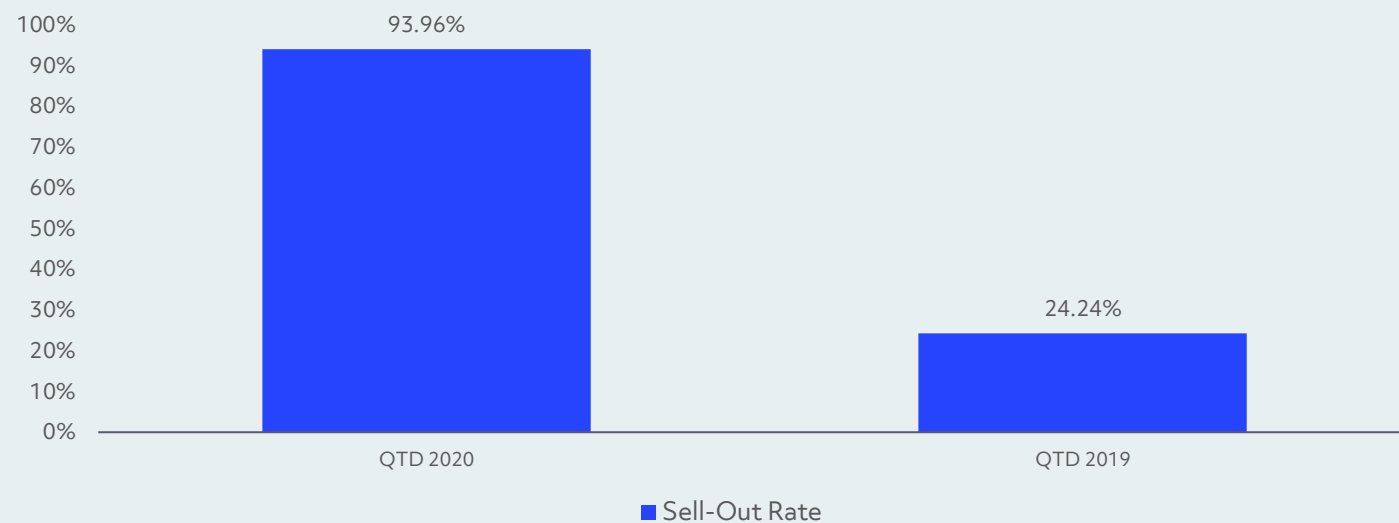
### Everlane A Year Ago

Compared to last year's quarter-to-date, Everlane has managed to achieve sell-out rates nearly 4x higher – from just 24% to 94% in 2020. With this amazing feat, it is undeniable that Everlane has successfully managed to navigate the retail landscape in the last twelve months.

CHART 1: BRAND POSITIONING AND PERFORMANCE BY ASSORTMENT COUNT

Brands	Positioning				Performance
	Assortment SKUs Count	Median Price (USD)	New-In Rate	% of Discounted Items	Total Sell-Out Rate
Reformation	2,244	145	49%	33%	94%
Everlane	2,085	61	23%	46%	65%
<b>Total</b>	<b>4,328</b>	<b>109</b>	<b>30%</b>	<b>39%</b>	<b>79%</b>

CHART 2: QUARTER-TO-DATE COMPARISON OF EVERLANE'S PERFORMANCE



# Covid-19 Response

## Operations/Supply Chain

Despite the disruptions to its supply chain, Reformation maintains that its online store will remain operational for shoppers to purchase items but shipment will be delayed until distribution centres reopen.

Everlane is experiencing a smaller impact on its supply chain due to multiple factory partners located across the globe. Production will only be affected in countries that have imposed quarantine and lockdown measures. Its distribution centre is still functional, however shipment could be delayed.

## Stabilising Sales & Inventory Levels

Both brands have made significant changes to their newness launch schedules in response to social distancing and lockdown as case numbers in the US and UK increase rapidly. Instead of staggering newness over the next few weeks, Everlane and Reformation chose to optimise for increased online spending. In the week of 23-29 March, both brands added the highest number of new-in SKUs within the past two months. This is potentially dangerous for Reformation as the brand will not be able to generate more new arrivals for the time being, which could lead to an issue of being understocked.

Additionally, Everlane is taking opportunity of consumers staying home during quarantine and lockdown measures. The brand has shifted from putting emphasis on new arrivals to drawing attention by running promotions. Everlane is experimenting with limited time promotions to help stabilise sales, including the brand's first 25% site wide sale.

CHART 3: WEEKLY NEWNESS BY BRAND

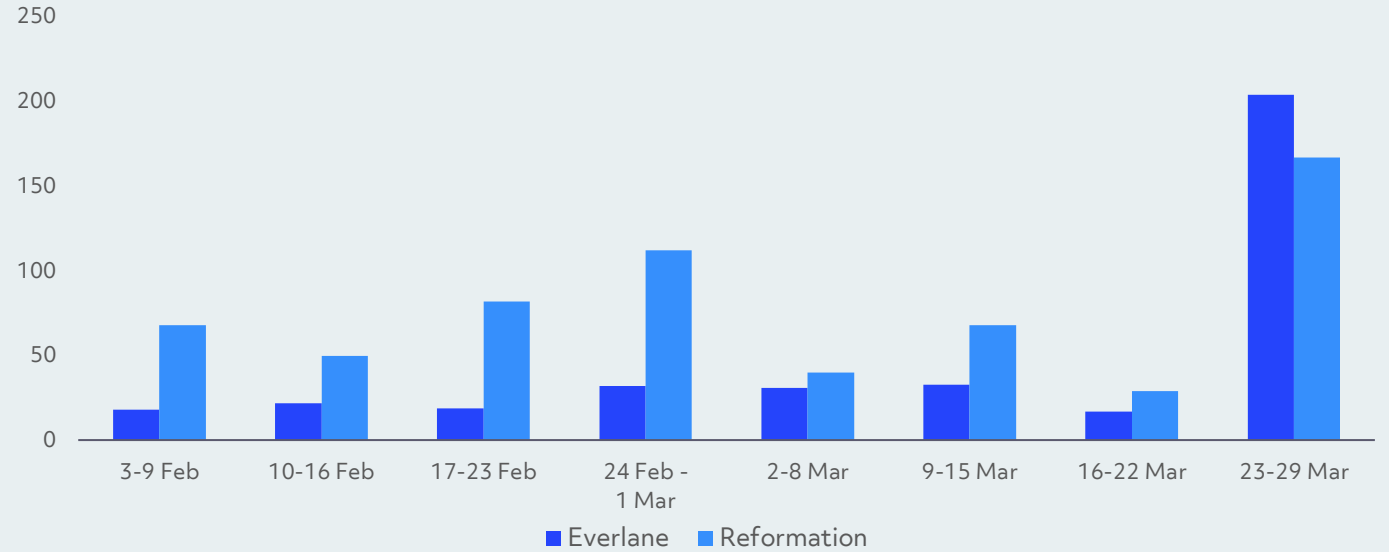


CHART 4: TIMELINE OF EVERLANE'S NEW ARRIVALS AND PROMOTIONS

- **7 FEB 2020**  
New arrival – The ReNew Rain Collection
- **9 FEB 2020**  
New arrival – The Performance 5-Pocket Pant
- **19 FEB 2020**  
New arrival – The Court Sneaker
- **16 – 22 MAR 2020**  
Denim priced at USD 50
- **23 – 29 MAR 2020**  
The Perform Legging – 2 for USD 90
- **30 MAR – 3 APR 2020**  
25% off site wide  
The Day Glove at USD 88

## Covid-19 Response (cont'd)

### Navigating Consumer Shifts

As the Covid-19 crisis leads to a global recession, the challenge is to anticipate how consumers will react during the crisis. Reformation is staying on top of this by asking customers for feedback on 14 March – gathering opinion on whether consumers would like to hear about new collection launches or need a break. A week later, Reformation announced that it would follow consumer demands and keep in touch with them on Instagram.

### Creative PR/Marketing

Everlane and Reformation have both been doing their part to help communities affected by Covid-19. Everlane has pledged all the profits from its 100% Human collection to be donated to [Feeding America's Covid-19 Response Fund](#) to aid food banks across the US. The collection successfully achieved 100% sell-out less than a week after the initiative was announced. Reformation announced a partnership with the City of LA on its [LA Protects initiative](#) to manufacture non-medical grade masks for essential workers. Furthermore, Reformation extended an open invitation to government and non-profit organisations that are interested in collaboration efforts.

Everlane capitalised on the increased traffic on social media by working with Outer Reach, a stretch studio. The collaboration consisted of an Instagram story video with simple stretches that can be done at home – perfect for those practicing remote working. The brand also used Instagram to address Covid-19 concerns in a video with Kimberly Smith, Everlane's Chief Supply Chain Officer. Smith addressed how Covid-19 has affected Everlane's factory partners, support for workers and future plans.

Guys,

By now we are all aware of the severity of COVID-19, and probably exhausted from the anxiety of it all. While we don't want to add to the stress, we do want to let you know how we're dealing with it at Ref.

To make sure we do whatever we can to help contain the virus, we will be closing all of our stores for now. Our retail teams will be given paid time off. All planned events and factory tours have been canceled as well.

As it's a complicated situation, these plans might change, and if so we'll let you know. We are closely monitoring what's going on, and will follow recommendations from the WHO, CDC and NHS.



As always, we're available on the Corona-immune Internet. You can still shop at [thereformation.com](#), dm us on Instagram, and send any questions and thoughts to [love@thereformation.com](mailto:love@thereformation.com).

Lastly, we're not sure exactly what is appropriate for a company like ours to be talking and posting about right now. What's resonating with you? Do you still want to hear about new collection launches and sustainability related stuff? Or do you need a break? Please let us know.

Stay safe and take care of each other.

♥ Ref



Everlane The 100% Human Unisex French Terry Sweatshirt in Large Print  
**USD 53.08**



Everlane The 100% Human Muscle Tank in Large Print  
**USD 25.00**



Everlane The 100% Human Woman Box-Cut Tee in Small Print  
**USD 27.77**

## Key Learnings

Both Everlane and Reformation's strategies to overcome the virus have proven to be successful. The online sell-out rates for both brands increased tremendously in the past month, especially for Everlane.

### Capitalise on Increased Online Spending

Everlane and Reformation took advantage of increased online spending by introducing a large number of new arrivals. Additionally, Everlane's existing concept, 'Choose What You Pay' is a good way to drive out slow-movers and prevent overstocking. This discount section allows customers to opt for 10%, 20% or 30% off the original price.

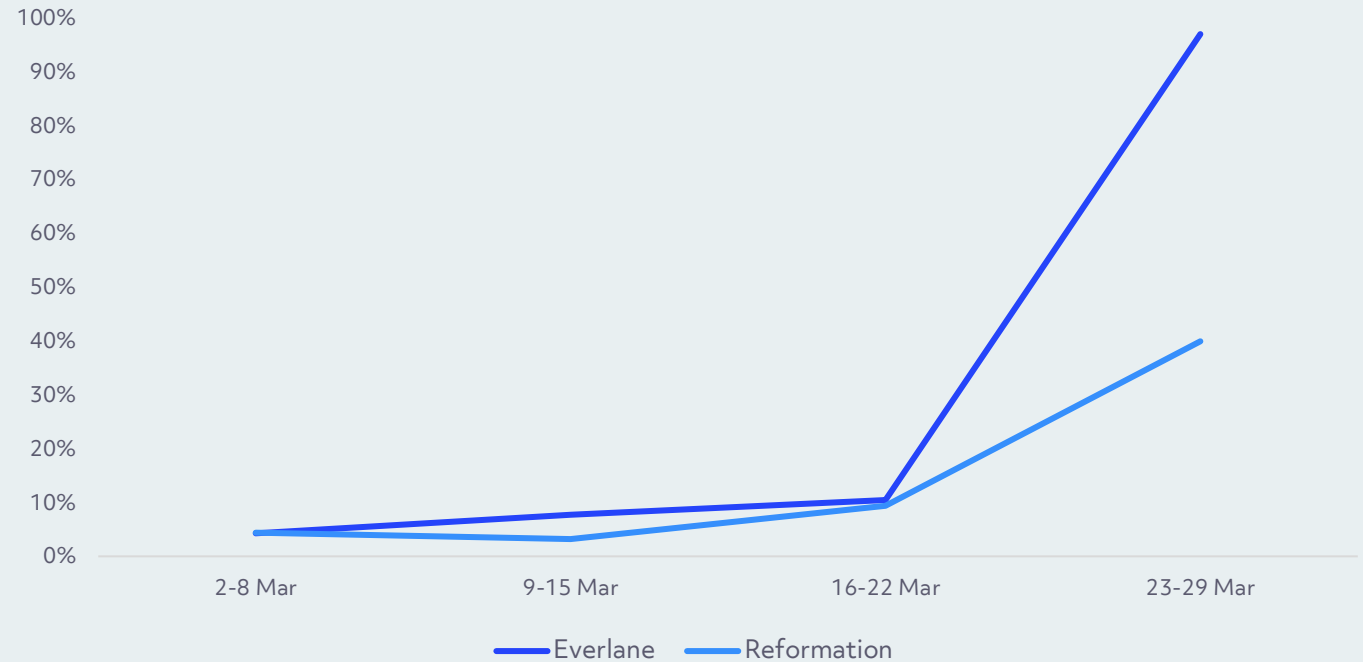
### Activate Social Media Driven Strategies

As social distancing and lockdown protocols increase, Everlane and Reformation have doubled down on their digital marketing efforts. Everlane featured its weekly promotions sponsored posts on Instagram, whereas Reformation chose to showcase product.

### Be Transparent with Customers

Everlane stuck by its principle of radical transparency through communicating the brand's standpoint on factories and employees amidst the Covid-19 crisis. Reformation also practiced transparency through updates on the brand's situation during the crisis.

CHART 5: WEEKLY ONLINE SELL-OUT RATES BY BRAND





## Key Learnings (cont'd)

### Correct Tone-of-Voice Online

Everlane and Reformation communicated warm messages in a concerned tone of voice to affected communities and workers. Additionally, Reformation exhibited sensitivity by asking consumers what they would like to see during this period. This action prevented the brand from coming off as frivolous.

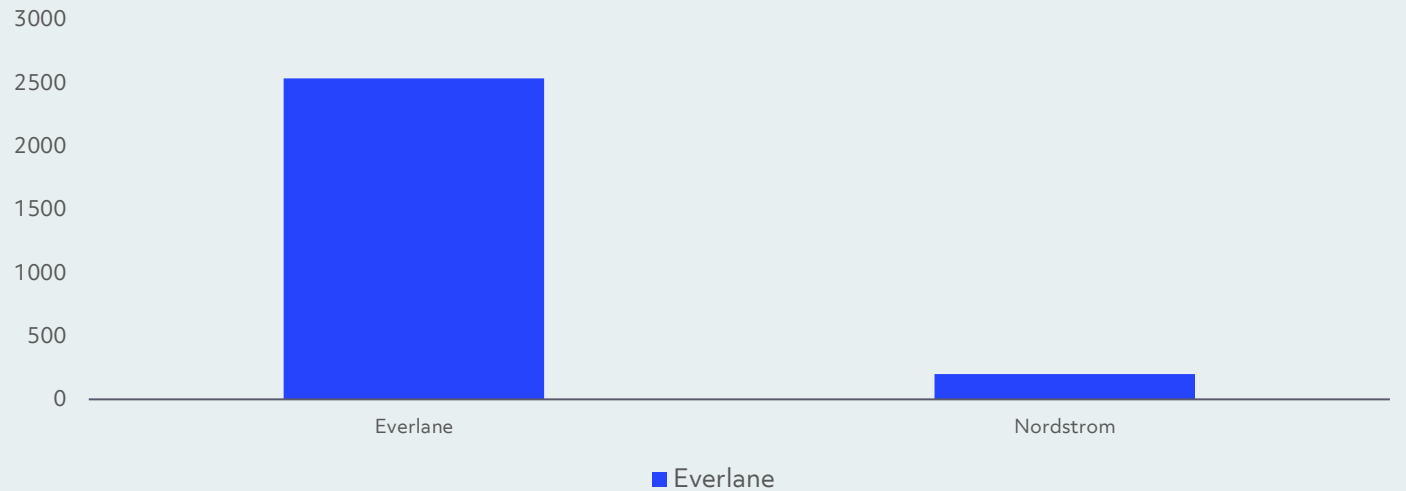
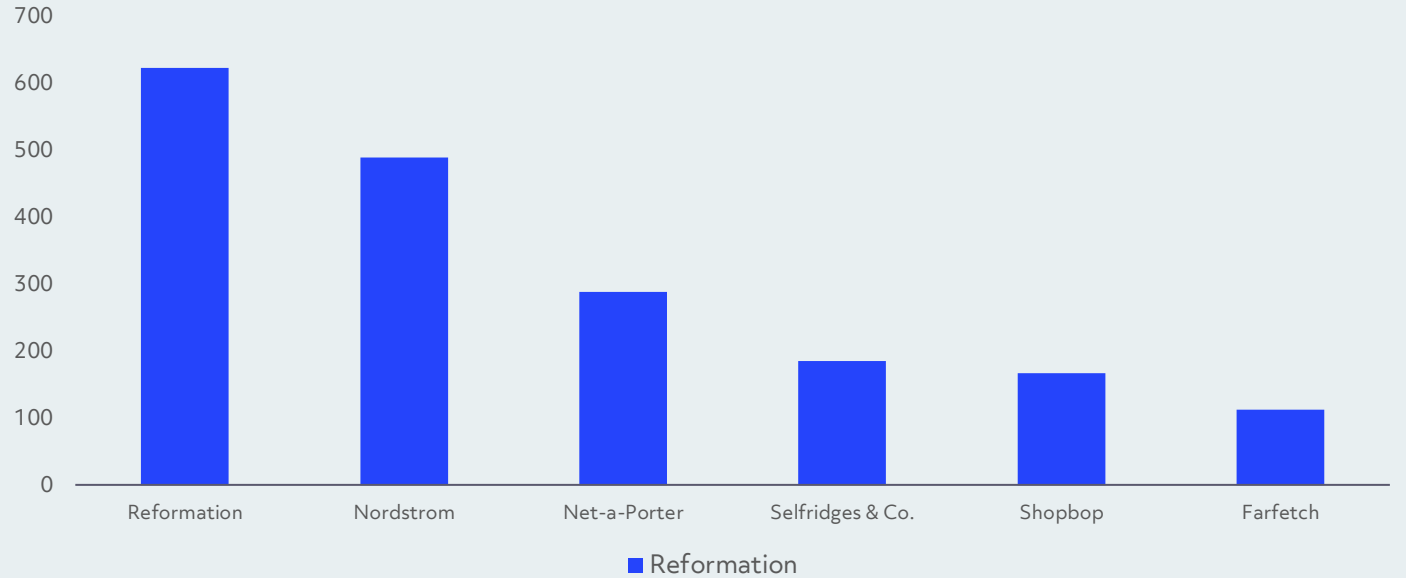
### Omnichannel Distribution Strategy

The closure of brick-and-mortar stores has caused a disruption in distribution channels. Unlike Everlane, Reformation was able to maintain online presence and visibility outside of its own website through partnerships with multiple retailers. More than 60% of Reformation products retailing online in March were from partner retailers. This demonstrates the benefits of the brand's wider omnichannel distribution strategy. Conversely, Everlane's sole retailer, Nordstrom, only increased the number of products retailing online by 7%.

### Supply Chain Diversification

Reformation's supply chain is deeply affected by Covid-19. The DTC brand's only factory and distribution centre is located in LA. Both functions have temporarily stopped operating, causing a problem for Reformation's future inventory levels. Everlane meanwhile works with 33 different factories spread across 4 continents. The diversification of Everlane's supply chain means that countries that are less impacted by Covid-19 can remain operational. Thus, Everlane is more capable of maintaining newness and managing stock levels.

CHART 6: ASSORTMENT ACROSS ONLINE RETAILERS IN MARCH BY BRAND



# Conclusion

## Main Findings

**Creating Strong Awareness and Presence:** The key to success for DTC brands is creative storytelling. Consumers are more willing to purchase products from brands that stand for something. Regardless of whether it's holding certain principles or being a part of a larger purpose, they are willing to spend if it resonates with them.

**Importance of Diversification:** Whether it is in terms of supply chain or distribution strategy, diversification is crucial to the success of a brand.

Under normal circumstances, putting all eggs into one basket can occur without a hitch. However, hiccups surface during times of crisis. A disruption in one element of the supply chain or distribution strategy can be catastrophic for a brand.

**Effectiveness of Promotions:** During the period where online traffic has surged, Everlane experimented with different promotions each week, since mid March. Everlane and Reformation had similar sell-out rates before Everlane started running promotions.

This manoeuvre is what helped Everlane achieve sell-out 11x higher than the previous week – putting it ahead of Reformation. Everlane's varying promotions successfully enticed consumers to purchase.

## Next Steps for Brands

**Keep an Eye on Social Media Trends:** With everyone constantly scrolling social media, this is the perfect opportunity for brands to use this to their advantage. Brands can ride on current trends, challenges and hashtags to improve social media engagement and increase visibility without incurring extra cost.

For example, the Instagram account @wfhfits features fashionable work from home outfits and garnered over 18,000 followers in just two and a half weeks. Brands can submit their own 'wfhfit' to be featured as a form of marketing.

Brands can also create interactive content or Instagram story templates for users to fill in and tag friends. When tagged users want to obtain a blank version of the story template, they will stumble across the brand's Instagram profile, making them potential customers.

**Anticipate Shifts in Consumer Behaviour:** As economies go through recession, consumers will begin to re-evaluate their spending habits. The Covid-19 crisis will cause consumers to shift away from frivolous spending and towards more intentional purchases. Brands must adapt to these shifts by ensuring that customer value is created.

Brands should ensure that their brand story is not only compelling but also consistent to produce lasting value for consumers.



Instagram @reformation

# Definition of Key Metrics

Metric	Description
Assortment SKUs Count	The total count of stock keeping unit (SKU) i.e. the number of styles that a brand offers. In the report context, it is the total product count within a data set.
New-In	The products that are newly added to the retail website within the timeframe selected.
New-In Rate	The number of new products launched by a brand within the timeframe selected. It is calculated by dividing the new-in count over the total product count within a data set.
New-In Contribution %	Calculated by dividing the number of new-in product count over the total new-in count within a data set.
Sell-Out	A product registers a sell-out event when it is indicated as out-of-stock or no longer published on the website.
Sell-Out Contribution %	Calculated by dividing the number of sell-out product count over the total sell-out count within a data set.

# Get in touch

Omnilytics is a fashion analytics company that helps brands and retailers – born to make data accessible and insights actionable so that businesses can make decisions with confidence and speed. At the core of what Omnilytics does is the belief that information is power; pairing deep industry expertise and ground-breaking technical innovation to bolster businesses' agility with data-driven insights.

[Find out more](#)

## Similar Industry Reports



MARCH 21, 2020 • COVID-19

### Fashion Retail & the COVID-19 Crisis



MARCH 2019 - FEBRUARY 2020 • WOMENSWEAR

### The Success of Luxury Brands Today

[See more Industry Reports](#)