

D2C Brands in India

History & Evolution

Definition of D2C brands

Majority of their revenue or customer acquisition comes from direct to consumer online channels

OR

Started with an online first distribution channel before going omni-channel



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Disruption

Innovation

Transformation

“
*Disruption is either going to happen to you or because
of you*”
- Brian Solis





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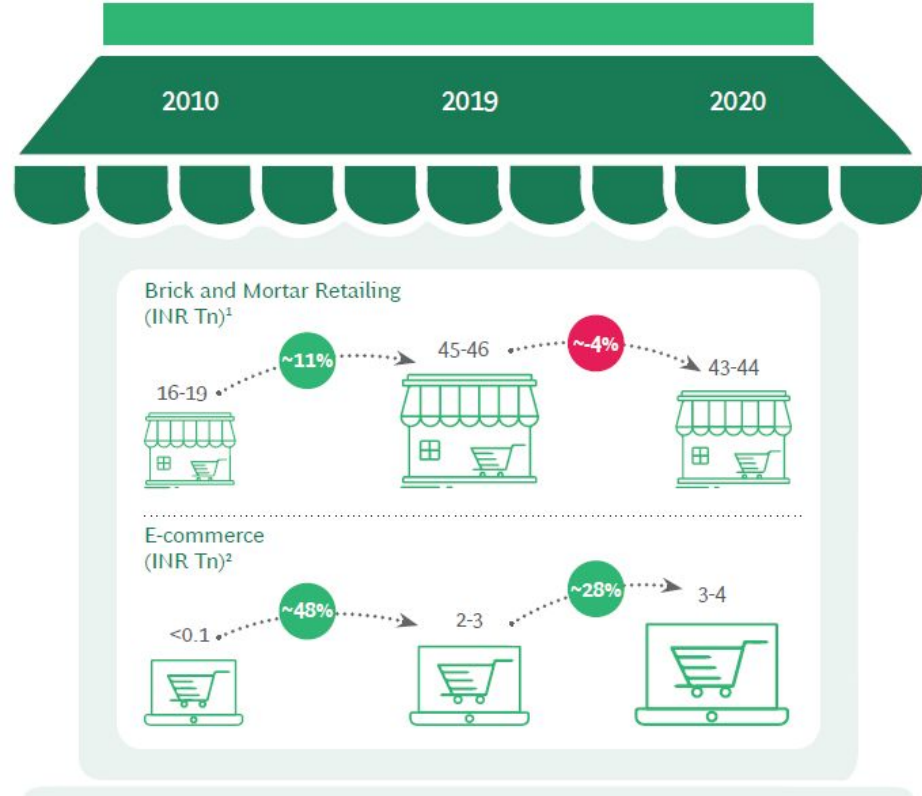
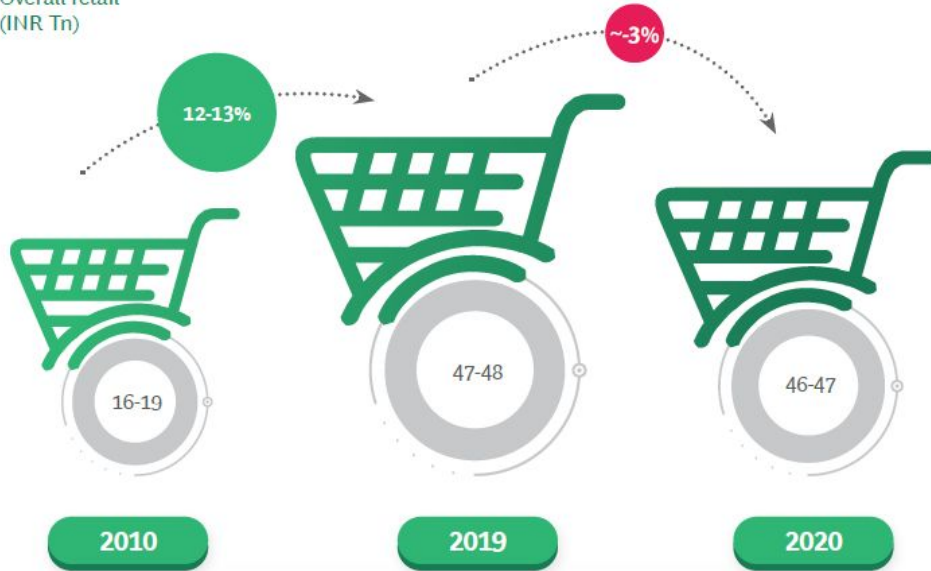


Jargons used

- ❖ AOV - Average order value
- ❖ ARR - Annual Run rate
- ❖ CAC - Customer Acquisition Cost
- ❖ D2C - Direct to consumer companies
- ❖ LTV - Lifetime value of the customer
- ❖ MP - Marketplace
- ❖ RTE/RTC - Ready to eat or ready to cook

Retail market in India

Overall retail
(INR Tn)



Source: BCG Report: Retail Resurgence in India for Retailers Association of India

Offline Retail



Apps

Mobile space is set to become the most costliest real estate for retail companies going forward

Why do most internet companies suffer huge losses in the initial years?

- Building a retail store, which requires huge investment, is capitalised as Assets in the balance sheet and expensed gradually over its useful life
- Offline stores have high operating costs like rent, employee cost, admin charges etc. which are fixed expenses, making it a low operating leverage business compared to online

- In the online space, while cost of developing an App is relatively less expensive, the cost to incentivise users to download the app (parallel to real estate cost in the offline world) is very high and it is expensed in the first year itself
- Once reaching a sizeable scale, profitability of online retailers can increase as benefits of operating leverage kicks in significantly

Footfalls



No. of visits / sessions

Transaction size



Average Order Value (AOV)

Total Bills Cut



No. of Orders

Traditional brands getting into a comfort zone

- ❖ Focus on existing brands - launch more SKUs and products under existing brands
- ❖ Fewer brand launches - few and far
- ❖ Inorganic growth - acquiring smaller brands

Years taken to cross 100 crs in revenues

F&B:

Bikaji - 21

Organic India - 17

Country Delight - 4

Licious - 3

MuscleBlaze - 3

Personal care:

Revlon - 20

Lotus - 19

Sugar - 4

Mamaearth - 3

MyGlamm - 3

Fashion:

Spykar - 15

Enamor - 13

Zivame - 7

HRX - 5

Lenskart - 4

Electronics:

Sennheiser - 15

Intex - 9

Atomberg - 4

Lifelong - 3

Boat - 2

Traditional Brands

New age D2C Brands

D2C size

- ❖ \$ 1.6 bn funding in D2C startups since 2016
- ❖ 800+ D2C brands launched
- ❖ 20+ global unicorns, 1 in India
- ❖ Raised \$ 787 mn in first 7 months of 2021 through 66 funding rounds
(almost half of what was raised in the last 7 years from 2014-2020)

Ingredients that make D2C brands a success

- ❖ Underserved new age customers
- ❖ Niche requirements
- ❖ Personal connect with brands
- ❖ Willing to experiment
- ❖ Women as a separate class of consumers
- ❖ Room for product innovation and being fast to the market
- ❖ Availability of third party logistics providers
- ❖ Customer interaction through social media engagement and digital awareness

Journey of a D2C Brand

Early stage

- ❖ Focus only on digital distribution
- ❖ Mix of own platform and marketplace distribution
- ❖ Own platform is used for marketing as well as customer loyalty and retention.

The customer database lies with the company

- ❖ Marketplace model increases discovery and reduces the customer acquisition cost drastically. It can be used for minimal products which are viable

Mid/growth stage

- ❖ Going offline for further scale
- ❖ Offline distribution expands the reach and the addressable market
- ❖ Enables touch-feel factor for the consumers
- ❖ Increases brand discovery
- ❖ Retail/experience stores act as an advt for the brand in high end malls and busy streets

Expansion stage

- ❖ Expansion to adjacent categories - increases basket size and target audience
- ❖ Omni channel expansion
- ❖ House of brands architecture - multiple sub brands under the umbrella brand
- ❖ International expansion

How do D2C Brands differentiate?

Measures of success of a D2C brand

- ❖ Average order value
- ❖ Customer repeat ratio
- ❖ Gross margins
- ❖ Brand resonance

The LTV/CAC formula is usually stated as follows:

$$\frac{\textit{(Average revenue per customer – direct costs)} \div \textit{customer churn}}{\textit{Sales \& marketing spend} \div \textit{new customers acquired}}$$

How do the ecosystems differ?



Manufacturing brand

Wholesaler

Retailer

Customer



Manufacturing Brand

Online Platform/Marketplace

Customer

Promotion & Marketing strategies

- ❖ Traditional brands give away a lot in terms of promotions and offers to the general trade and wholesale channel
- ❖ A major proportion is still spent on OOH advertising and TV, print media for the traditional brands
- ❖ D2C brands tend to spend a major portion of their marketing budget on digital initiatives especially Google adwords, Instagram, Facebook
- ❖ D2C brands also tend to have many influencers/bloggers
- ❖ Target based advertising is possible in the digital world

Selling on a marketplace vs own website/app

- ❖ Marketplace takes anywhere between 25-40% for logistics, inventory management and payment gateways
- ❖ Own website/app means more bandwidth required
- ❖ Logistics as it is is around ~15% of the order value
- ❖ Customer database stays with them if the order is transacted through their own assets
- ❖ Data analytics on consumer behaviour is provided by marketplace as well

End game

1. Strategic sale to incumbents
2. Raise more money
3. IPO

Major sub-segments

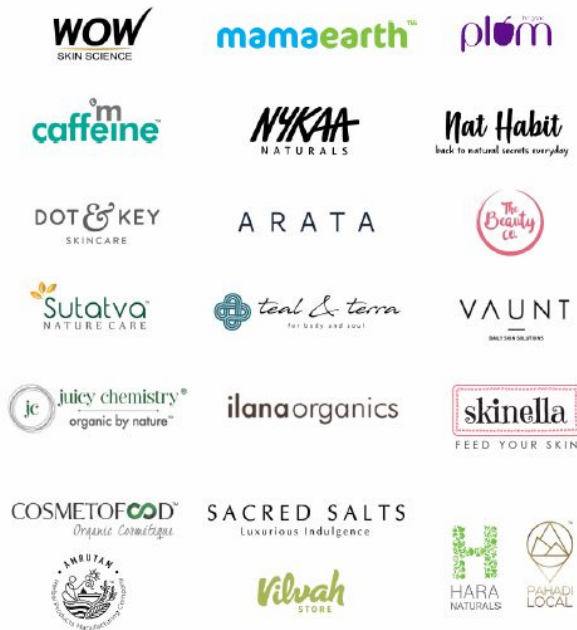
	Beauty and Personal care	Food & Beverages	Fashion	Electronics	Home & Furnishings
Size of digital market in 2025 (\$ bn)	4	15	32	48	4
Gross margin	65-75%	45-55%	45-60%	20-40%	50-60%
Purchase frequency	Monthly	Weekly	Once in 3-4 months	Once in 1-2 years	Once in 5-8 years
Customer repeat behavior	High customer repeats	Taste specific; opportunity to create high repeats	Consumers survey multiple brands	Consumers survey multiple brands	Every sale is a new customer
Non discretionary nature	Essential products of daily use	Essential products of daily use	Necessity with discretion in timing of purchase	Discretionary (though becoming a necessity now)	Discretionary
Product uniqueness	Large opportunity in unaddressed niches	Emerging trends relating to health consciousness, animal/plant based protein	Easily replicable designs	Standard specifications	Customer experience innovations
Digital marketing	High penetration on social media	High penetration on social media	High penetration on social media	High penetration on social media	Very few segments use digital marketing
Average order value	400-2000	400-2000	300-2500	500-5000	5000-100000

Source: Avendus Report on D2C Brands

Beauty & Personal care companies

Personal Care

Natural, Organic, Vegan, Ayurveda



Personalized



Niche



Women's Hygiene



Cosmetics



Men's Grooming



Transactions in Beauty & Personal care

Transactions in India

Target	Investor	Segment	Year	Deal value
Beardo	Marico	Men's grooming	2020	NA
Vwash	HUL	Feminine Hygiene	2020	NA
Creme 21	Emami	German personal care	2019	\$ 13 mn
Brillaire	Emami	Skin & Hair care	2018	26% stake
Bombay Shaving	Colgate Palmolive	Men's grooming	2018	24% stake
The Man Company	Emami	Men's grooming	2017	30% stake
Kesh King	Emami	Hair care	2015	\$ 220 mn
Indulekha	HUL	Hair care	2015	\$ 44 mn

Transactions globally

Target	Investor	Segment	Year	Deal value
Billie	P&G	Female body care	2020	NA
Kylie Cosmetics	Coty	Cosmetics	2020	\$ 0.6 bn
Have & Be	Estee Lauder	Korean skin care company	2019	\$ 1.7 bn
Drunk Elephant	Shiseido	Skin care	2019	\$ 0.8 bn
Tatcha	Unliever	Skin care	2019	\$ 0.5 bn
Dollar Shave Club	Unliever	Men's grooming	2015	\$ 1 bn

F&B companies

Utility & lifestyle

Milk & dairy products



Health & supplements



Snacks



Tea



Coffee



Juices



Meat & meat alternatives

Meat and seafood



Meat alternatives



Meals

Cloud kitchens on demand



Cloud kitchens subscription



Instant foods - RTE/RTC



Transactions in F&B

Transactions globally				
Target	Investor	Segment	Year	Deal value
Be & Cherry	Pepsico	Snacks brand	2020	\$ 705 mn
Keebler	Ferrero Int.	Baked snacks	2019	\$ 1300 mn
Quest Nutrition	Atkins Nutrition	Protein bars	2019	\$ 1000 mn
Amplify snacks	Hershey	Popcorns, chips	2018	\$ 915 mn
Aspen	Lactalis	Infant nutrition	2018	\$ 860 mn

Transactions in India				
Target	Investor	Segment	Year	Deal value
Eastern	Orkla/MTR	Condiments brand	2020	\$ 270 mn
DFM Foods	Advent Int.	Healthy snacks	2019	\$ 136 mn
Ruchi Soya	Patanjali	Edible oil	2019	\$ 609 mn
Daily Ninja	Big Basket	Milk delivery service	2019	\$ 25 mn
Kraft Heinz	Zyduz Wellness	Consumer wellness	2019	\$ 600 mn
GSK CH	HUL	Nutritional supplements	2019	\$ 452 mn
Havmor	Lotte	Ice Cream	2017	\$ 144 mn
Tasty Bite	Mars Inc	Ready to eat food	2017	\$ 151 mn

Fashion wear companies

Western wear		Ethnic wear			
<p>Economy brands</p> <p>Bewakoof®</p>	<p>Mass-premium brands</p> <p>WROGN FABALLEY WOMEN F2 FableStreet TAILOR YOUR STORY</p> <p>TURMS 20Dresses Henry & Smith</p> <p>BOMBAY SHIRT COMPANY ARISTOBRAT SALT CUSTOM MADE</p>	<p>Economy brands</p> <p>karigari</p>	<p>Masstige brands</p> <p>indya f fashor</p> <p>oks ANOUK Clothing</p>		
<p>Premium brands</p> <p>NICOBAR</p>		<p>Premium brands</p> <p>JAYPORE.COM</p>			
Specialized segments					
<p>Eyewear</p> <p>lenskart</p> <p>GLASSIC www.glassic.in</p> <p>COOLWINKS www.coolwinks.com</p> <p>ZEBRIANA</p>	<p>Activewear / athleisure</p> <p>ACTIMAXX PERFECT FIT</p> <p>HRX BY HIRSHI PATEL</p> <p>AZANI</p> <p>EGO ACTIVWEAR</p> <p>zeven LIVE YOUR LIFE</p>	<p>Innerwear</p> <p>zivame</p> <p>Clavia</p> <p>one8 Select BY VIRAT KOHLI</p> <p>BROG</p> <p>Candyskin</p>	<p>Footwear</p> <p>NEEMAN'S</p> <p>dressberry</p> <p>kurio</p> <p>SHOERELLA WALK, RUN, RIDE</p>	<p>Accessories</p> <p>VÖYLLA FASHION JEWELRY</p> <p>MELORRA</p> <p>सुककी</p> <p>GIVA</p>	<p>Kids</p> <p>babyhug</p> <p>Cub Me PALS</p> <p>Kid Closet</p>

Transactions in Fashion

Transactions in India		
Target	Acquirer	Year
MM Styles	Reliance Brands	2021
Ritu Kumar	Reliance Brands	2021
Sabyasachi	ABFRL	2021
Tarun Tahiliani	ABFRL	2021
Jaypore	ABFRL	2020
Shantanu & Nikhil	ABFRL	2020
Zivame	Reliance Brands	2020
HRX	Myntra	2016

Transactions globally				
Target	Acquirer	Segment	Year	Valuation
Reformati on	Permira	Women's clothing	2019	Undisclosed
ELOQUI	Walmart	Plus size clothing	2018	\$ 100 mn
Bonobos	Walmart	Men's clothing	2016	\$ 310 mn
Blue Nile	Bain Capital	Jewellery	2016	\$ 520 mn



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nature's WONDER

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IN ♥ WITH FASHION



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Service D2C companies



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Some success stories



- ❖ Evolved from being a marketplace to selling its own brands
- ❖ Started private labels in 2016 starting with Nail Polishes
- ❖ Nykaa offers a wide choice with almost 200k SKUs across a portfolio of close to 2,500 international, domestic, luxury, and niche brands
- ❖ Omni-channel approach: As of 31st Mar'21, Nykaa has 73 physical stores across 38 cities
- ❖ Launched in 2018, Nykaa Fashion houses 1,350 brands and over 1.8m SKUs with fashion products



- ❖ India's largest speciality commerce platform for kids and babies
- ❖ India's largest parenting community app
- ❖ Strong omni-channel distribution strategy - personalised experience across all channels
- ❖ Building a holistic parenting ecosystem to take care of all needs of a growing child



- ❖ USD 67 mn in annual revenues
- ❖ Consumer base of 2 mn+
- ❖ Attained no 1 position in earwear within 4 years of launch
- ❖ Brand ambassadors include cricketers, young celebrities and singers
- ❖ Majorly distributes via online marketplaces with some presence in large format retail chains and multi brand outlets

mamaearth[®]

goodness inside

- ❖ Started in December 2016 by parents of a child with some skin allergy
- ❖ Learnt from personal experience and launched the initial product basket which had very basic products
- ❖ “For parents, By parents” brand
- ❖ Solving problems like Colic - roll ons without thinking about opportunity size and market share numbers
- ❖ Crossed 300 crs in revenues and growing at 100%+ rates
- ❖ The company now has 140 products, which are sold both online and offline across 12,000 stores pan India

Some failure stories



- ❖ Poor inventory management
- ❖ Wrong team - Different styles of management
- ❖ Growing too fast
- ❖ High capex, high opex, high working capital business
- ❖ Underestimated brand & advt expenses
- ❖ Did not know the “true customer”
- ❖ Built brand ahead of the business

Still to be seen.....

Sources

<https://www.avendus.com/india/d2c-brands-report>

BCG report for Retailers Association of India : Retail Resurgence in India

Founder interviews

The Biography of a Failed Venture

Evolving space...Keep an eye out for it..

