

KIN+CARTA

The **DTC** investment opportunity

Whitepaper
2022



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Preface

The pandemic has driven an unprecedented level of spending directly with brands and migration to online has continued to accelerate, bringing renewed investment focus to this channel.

For this whitepaper, we share sector insights and our unique methodology for evaluating the opportunity this presents for investors. Some highlights of our findings on identifying and valuing acquisition targets across sectors include:

- The shift to DTC has accelerated even within the least penetrated consumer segments, and this growth will continue mid to long-term
- Within Food & Beverage, large players are increasingly looking at DTC opportunities as they seek to bolster sales and reach younger consumers
- DTC businesses continue to deliver strong and growing valuations over time with best-in-class concepts commanding high multiples

We also share our unique approach to diagnosing scalability potential for DTC businesses:

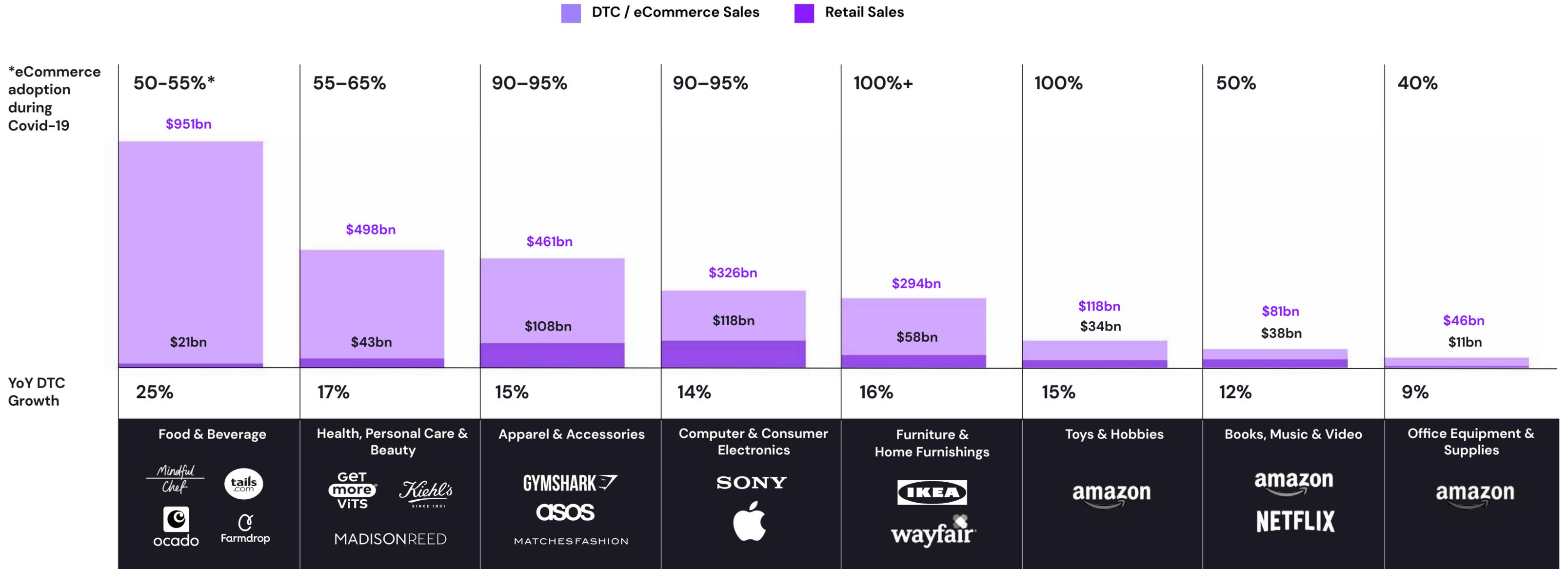
- There are a range of digital KPIs across the customer journey which can help businesses navigate their DTC model and unlock growth potential
- It is important to understand additional drivers which impact the ability to measure and benchmark digital metrics
- We highlight the targeted investments in technology and digital capabilities that can unlock significant growth potential for DTC businesses



DTC sector trends and benchmarking

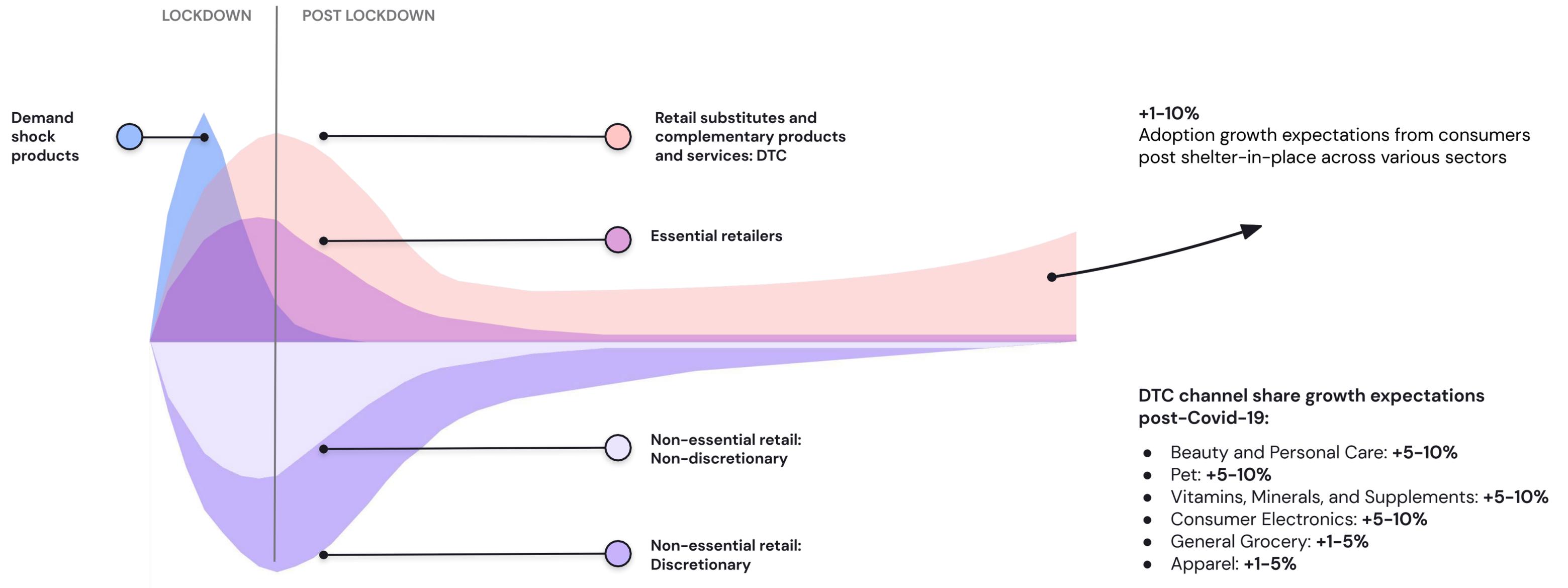
The ongoing shift to online drives growth across sectors

Food & Beverage and Health & Beauty sectors experience the highest DTC YoY growth rates during Covid-19



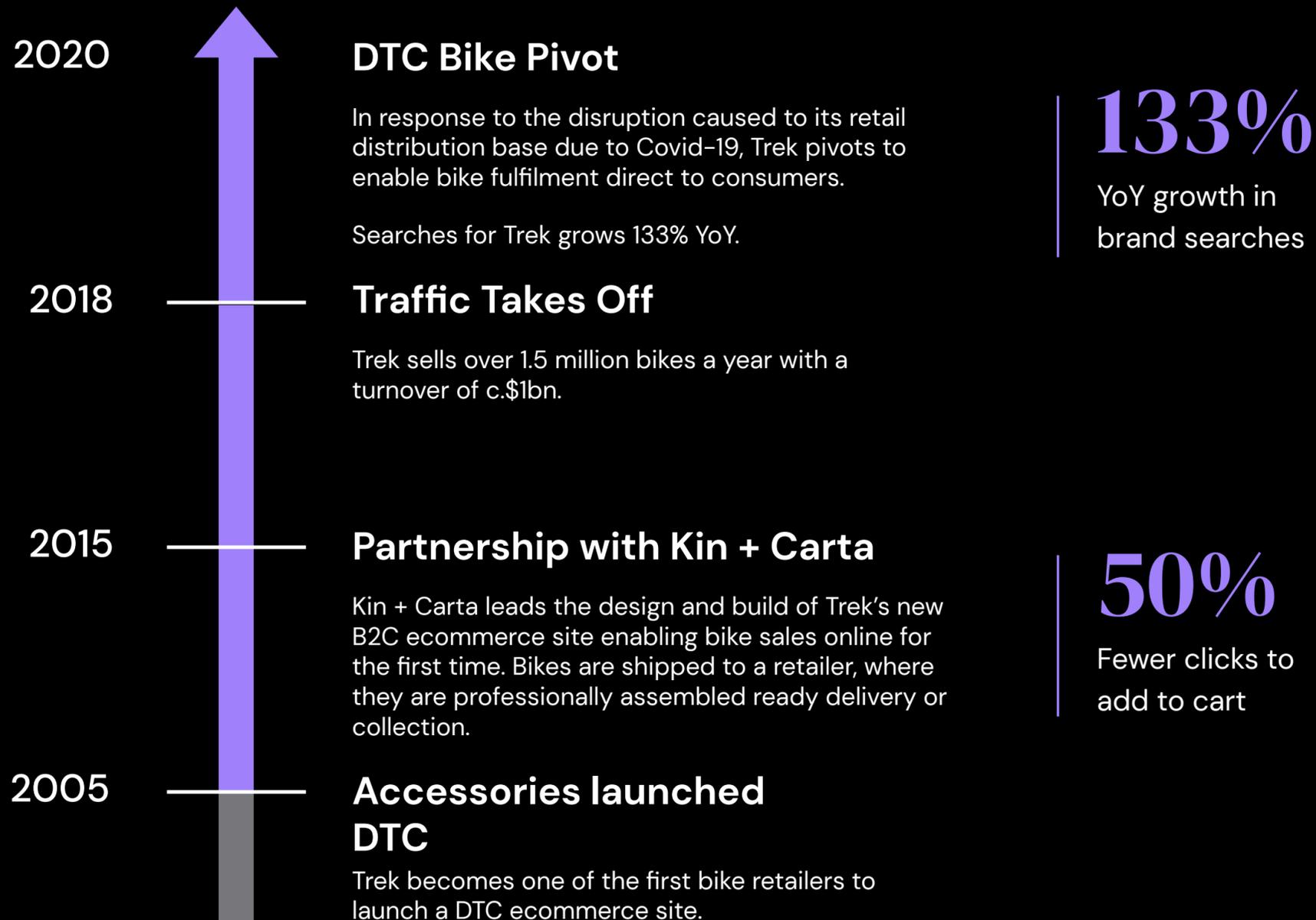
Acceleration of DTC: from a temporary switch to the new norm

Consumers' reaction to the pandemic has resulted in an increased migration to DTC channels that is likely to provide even stronger tailwinds to the sector over the long-term



Case Study: Trek

CX agility in the face of a pandemic

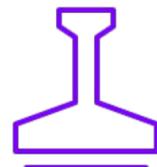


Key aspects of businesses with well positioned eCommerce and DTC channels



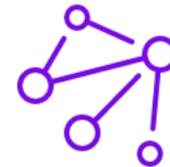
1. Proven Models

- Profitable model, proven track record of growth
- Differentiated positioning
- Ability to deliver retention and recurring sales



2. Established Brands

- Clear value proposition, customer traction and digital following
- Reliable and recurring organic traffic from brand equity
- Customer satisfaction supported by brand engagement



3. Investment in Infrastructure

- Personalised, data-driven approach to engage with customers
- Marketing performance and analytics visibility throughout customer journey
- Scalable systems in place



4. Established Supply Chain

- Established supply chain with supplier alternatives
- Diversity in shipping options
- Proven ability to manage customer relationships
- Minimal product stock-outs or supply chain disruptions

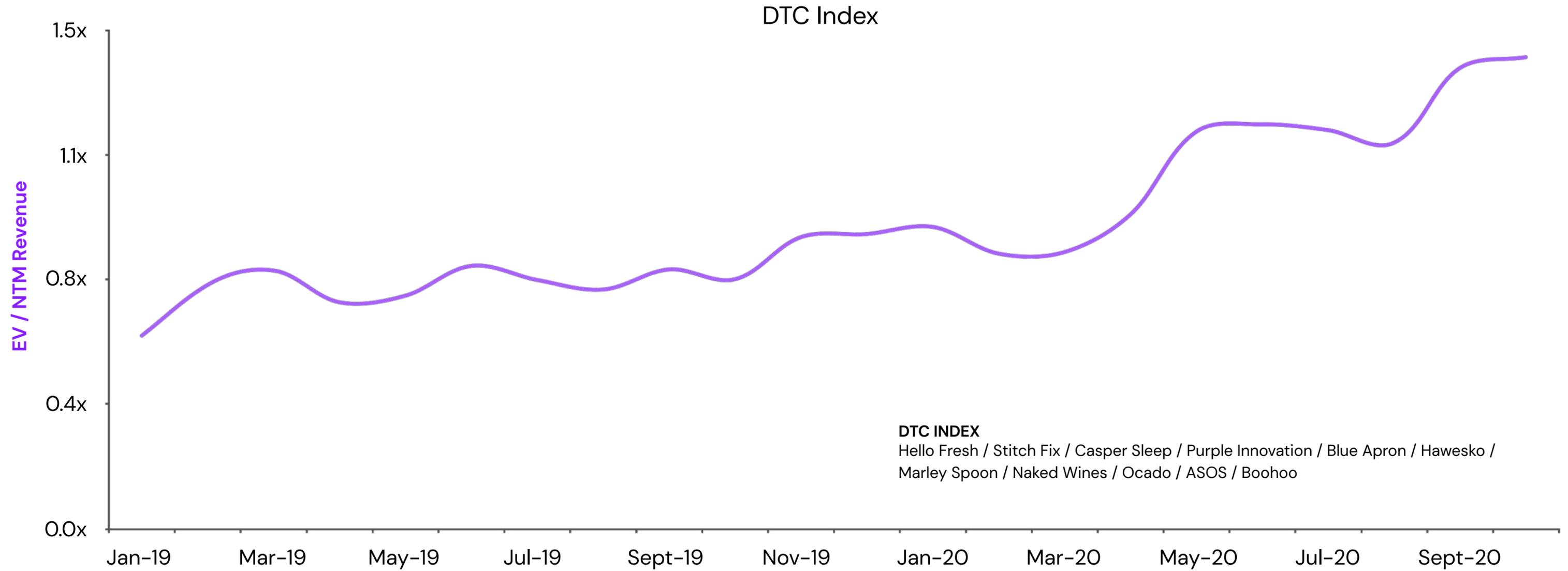
DTC strategies for legacy brands: Food & Beverage deep-dive

- The DTC channel is starting to get the attention of the large food players looking to find alternative avenues to bolster sales and reach younger consumers
- Given the lack of M&A opportunities in some segments, large food producers have turned to launching their own DTC platform
- CPG companies have shown hesitance in launching DTC due to concerns over disrupting retail relationships
- CPG companies and legacy manufacturers are re-thinking strategies for selling through and competing against Amazon

	 DTC M&A	 LAUNCHED DTC	 eCOMM PRESENCE	 SOCIAL MEDIA
	-	-	-	-
	✓	✓ 	✓	✓
	-	-	✓	✓
	-	✓	✓	✓
	✓	-	-	✓
	-	✓	✓	✓
	✓ 	-	-	-
	-	✓	✓	-
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✓ = Active strategy / already accomplished

DTC benchmarking: public valuations over time



Establishing a DTC digital investment thesis

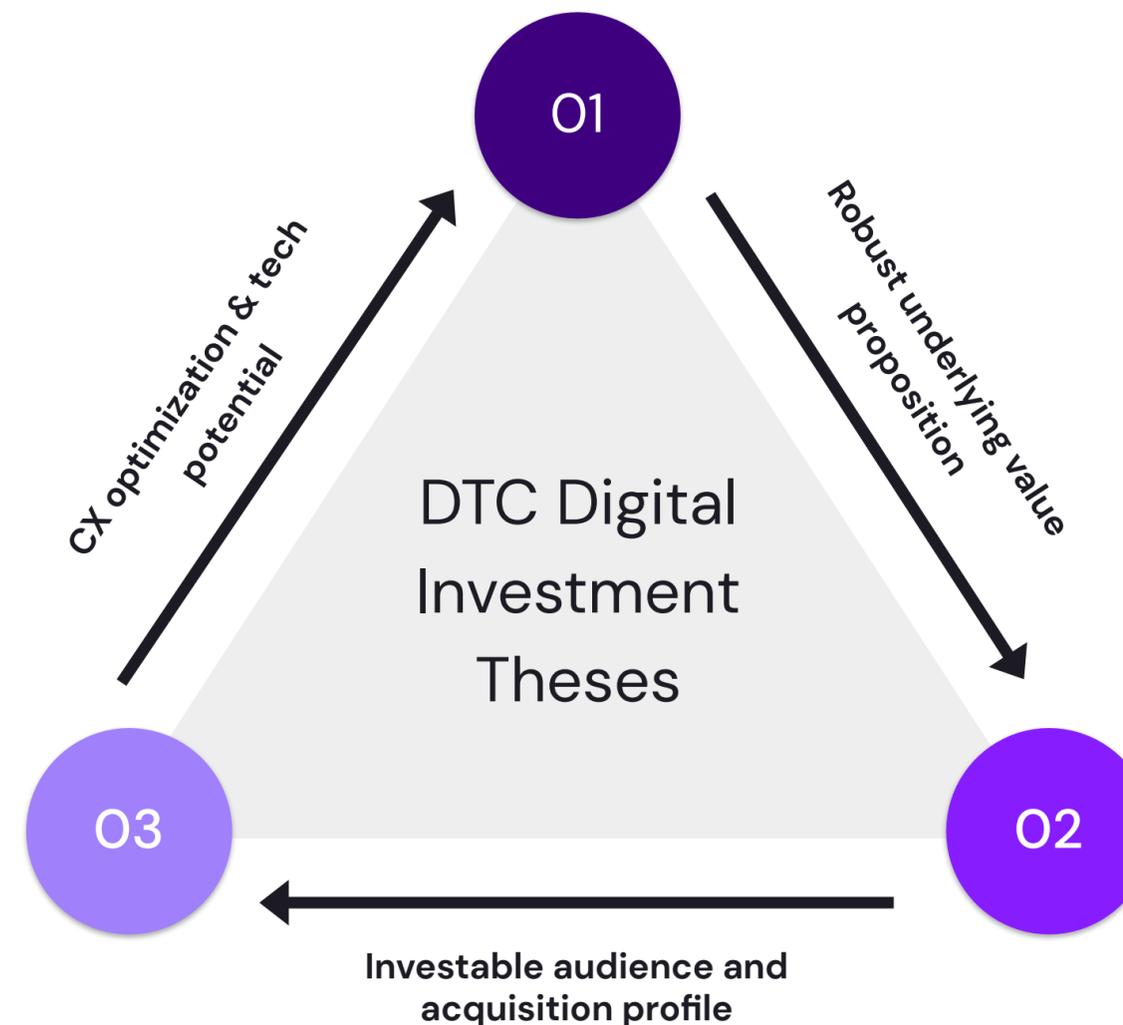
The markers of a rapidly scalable DTC business

In conjunction with commercial and financial evaluations, assessment of digital KPIs can provide confidence in the fundamental health of a business's brand and value proposition, highlighting a strong platform for scale.

Digital KPIs can also indicate opportunities for DTC growth potential across the customer journey.

Provided the business benefits from scalable back-end operations with no underlying technology debt, targeted investment in digital capabilities, data and technology can unlock customer acquisition potential and drive differentiating CX, presenting an attractive investment thesis.

Here, we consider the metrics that matter across the customer journey and the key digital investments that can unlock rapid growth potential for DTC operators.



The DTC KPIs that matter and considerations for use

	Audience	Consideration / Engagement	Conversion	Service	Retention & Advocacy
Externally Measurable	<ul style="list-style-type: none"> Total visits & demographics Visits by channel Social audience Conversation volume Traffic share (sector) Domain authority Share of search 	<ul style="list-style-type: none"> Bounce rate Social engagement rate Time on site / pages per visit Unique vs returning audience Site speed 	<ul style="list-style-type: none"> Funnel Performance 	<ul style="list-style-type: none"> Ratings & reviews 	<ul style="list-style-type: none"> Brand sentiment Social shares
Internally Measurable	<ul style="list-style-type: none"> Contactable database Database growth / churn 	<ul style="list-style-type: none"> Email open / click rate 	<ul style="list-style-type: none"> Conversion rate Basket abandonment rate Cost per acquisition Average order value Return on ad spend 	<ul style="list-style-type: none"> Returns rate Contacts per order 	<ul style="list-style-type: none"> Customer churn Customer lifetime value Repeat purchase rate NPS

Measurability

Traffic and social analysis tools can provide rich insight into the online performance of DTC businesses from the outside, but many key KPIs are only measurable internally. Careful consideration should be given to the method and consistency by which these are reported to ensure like-for-like comparison.

Benchmark Ability

Many DTC KPIs can be positively or negatively impacted by factors unrelated to the health of the DTC proposition, such as traffic source, price positioning, and channel and device mix - particularly those under Consideration, Conversion and Advocacy stages. Analytics configuration and measurement rules can vary, driving variation in KPI reporting. Rules and definitions should be clarified with management. In general, externally measured KPIs are a more reliable source of benchmarks.

Conversion Rate Caution

Conversion rate is one of the most commonly benchmarked KPIs and also one of those most impacted by variations in proposition and measurement. A full understanding of all the influencers on conversion and consideration of how it has trended are more important than a fixed measure.

KPI Assessment: The underlying value proposition

Value Proposition Fundamentals

Strong KPIs for ratings & reviews and low returns rate indicates a strong and scalable underlying value proposition.

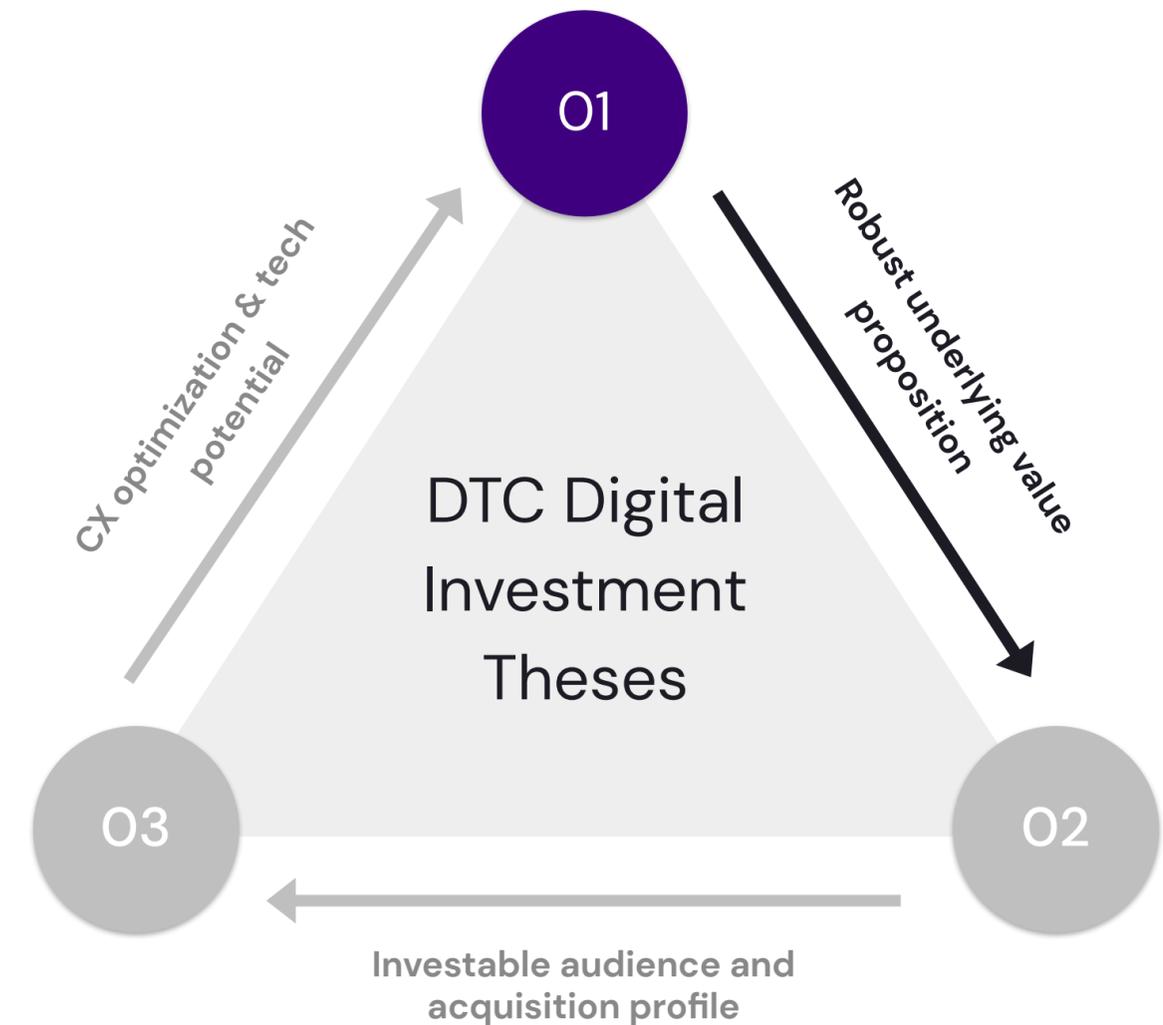
Brand Lethargy

Falling social conversation, direct traffic and email engagement KPIs, or increasing database churn are all markers of declining brand interest. This should be validated through customer insight.

Proposition Risk

Heavy dependence on paid acquisition coupled with low retention and advocacy metrics are markers of a consumer fad or poor value proposition. Consideration should be given to the sustainability of historic growth.

■ Reasons to invest ■ Reasons for caution



KPI Assessment: Scalable **customer acquisition** profile

Audience Equity

A traffic profile over-indexing on organic search, email and social sources, underpinned by a healthy SEO profile and a substantial contactable database are markers of a sustainable audience resilient to aggressive acquisition tactics from competitors.

Paid Acquisition Headroom

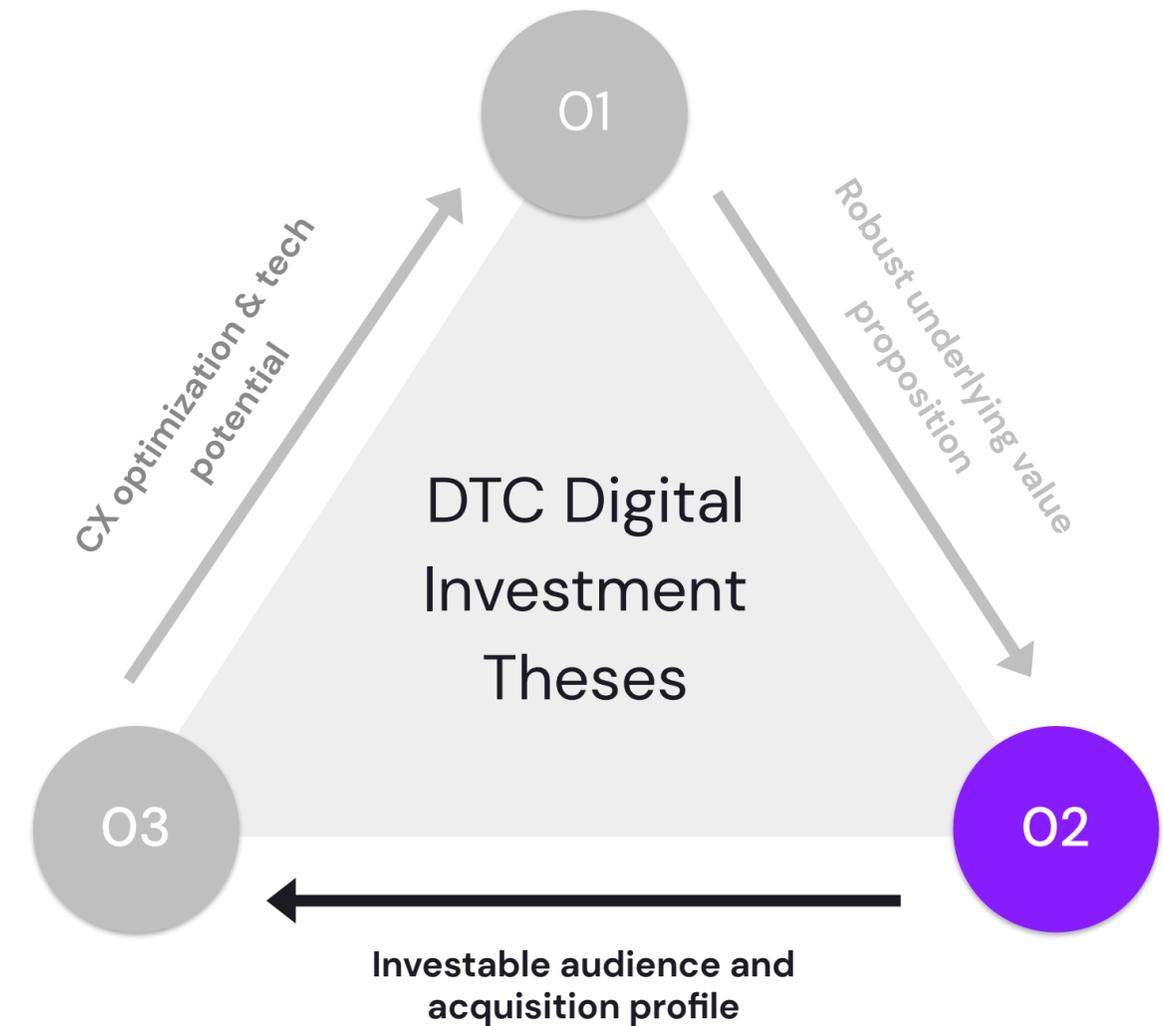
Businesses under-indexing on paid traffic sources, coupled with low cost per acquisition and a high return on ad spend indicate headroom to rapidly scale through paid acquisition.

Digital Acquisition Saturation

Businesses already ranking well for high volume search terms, with high shares of sector traffic, have limited opportunity for digital acquisition growth. Consideration should be given to non-digital acquisition models and international growth.

Reasons to invest

Reasons for caution



KPI Assessment: CX optimization opportunity

Engagement Headroom

Low domain authority, social engagement, or email engagement, coupled with strong proposition fundamentals indicate an opportunity to scale audience and conversion through investment in content strategy and digital operations.

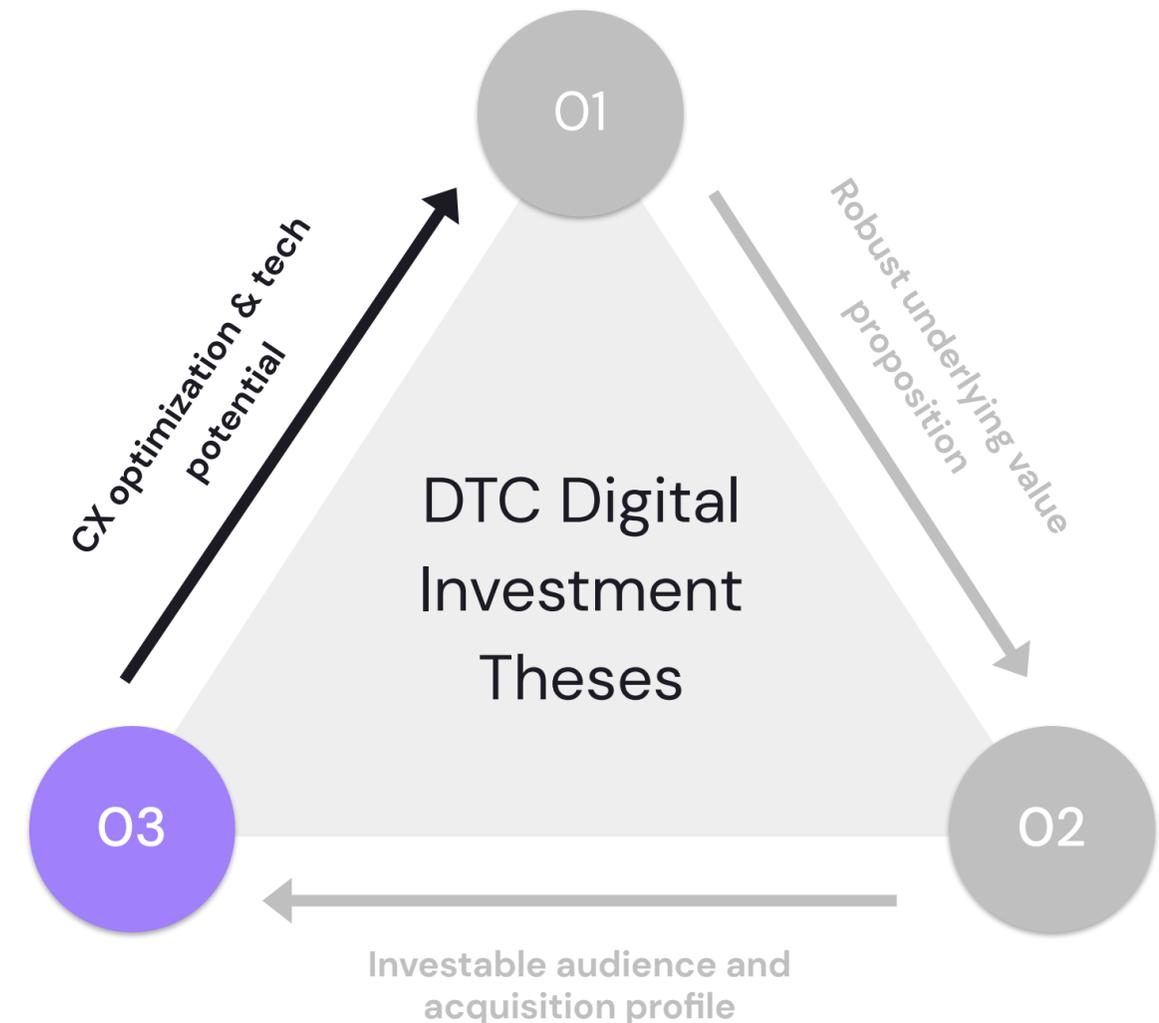
Experience Headroom

High KPIs for bounce rate or basket abandonment, or low KPIs for returning traffic proportion, site speed or conversion, signal CX underperformance. Provided the proposition fundamentals are strong, this indicates an opportunity to drive rapid growth through targeted CX investment.

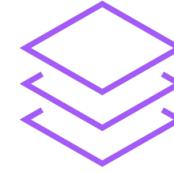
Lagging Logistics

High contacts per order, a drop off in funnel performance attributable to logistics options and corresponding review feedback highlights an unattractive fulfilment offer. Provided back-end systems and processes are robust, third party integrations may unlock incremental conversion growth.

■ Reasons to invest ■ Reasons for caution



The operational enablers of DTC scalability: Technology



Connected Data and Cloud Tech Stack



Modern, Scalable Content Management System (CMS) or Digital Experience Platform (DXP)

<i>What is this?</i>	How an organization's data assets are connected & where they are stored to align to modern data architecture principles	The technologies used to deliver digital experiences to customers across journey stages and devices
<i>Why is it important?</i>	Connected data improves customer insight and powers automation and personalization, resulting in better CX & greater marketing ROI	A mismatched, outdated, or poorly configured platform results in poor CX and operational inefficiencies, limiting ROI
<i>What are the investment considerations?</i>	<ul style="list-style-type: none"> • Data & analytics people capabilities • Core systems modernization (e.g. ERP, CRM systems) • Systems integration • Cloud modernization 	<ul style="list-style-type: none"> • CMS or DXP people capabilities • Replatforming / website redesign • CMS / DXP software • Systems integration
<i>What are the markers of underinvestment?</i>	<ul style="list-style-type: none"> • Lack of accurate CLTV KPI • No Chief Data Officer or equivalent • Siloed data (e.g. CRM, financial, advertising) • 'On-premise' systems • Immature analytics activation 	<ul style="list-style-type: none"> • Poor site speed / engagement KPIs • Platform misaligned to CX objectives • Limited take up of platform functionality / high license fees • Undifferentiated design
<i>What impact can investment have?</i>	2.6x sales growth over a three year period for businesses that aggregate multiple customer and marketing data sources	50% increase in site speed and 30% increase in conversion for DTC furniture retailer Burrow in the first two months of switching to a headless CMS

The operational enablers of DTC scalability: Digital capabilities



Integrated Voice of Customer (VOC) Program



Marketing Attribution & CLTV Modelling



Rapid Experimentation

	Integrated Voice of Customer (VOC) Program	Marketing Attribution & CLTV Modelling	Rapid Experimentation
<i>What is this?</i>	The capabilities (people, processes, and technologies) through which a business collects, disseminates, and actions customer insight	The ability to understand the contributory effect of different marketing channels on key KPI's, including customer lifetime value	A culture of frequent experiment deployment e.g. A/B testing landing pages, adverts etc. to isolate which drives highest ROI
<i>Why is it important?</i>	VOC is core to customer centricity. This drives better decision making and leads to differentiated CX. These insights deliver value across business functions, not just digital	Marketing channels have different roles in driving sales. By understanding this, companies can drive better ROI from marketing investment and customer strategies	Experimentation enables an organization to use customer data to quickly validate effective experience and marketing strategies, improving conversion and saving money
<i>What are the investment considerations?</i>	<ul style="list-style-type: none"> • VOC software • VOC people capabilities & culture 	<ul style="list-style-type: none"> • Marketing attribution technology • Bespoke attribution modelling • People capabilities 	<ul style="list-style-type: none"> • Experimentation software & processes • People capabilities & culture
<i>What are the markers of underinvestment?</i>	<ul style="list-style-type: none"> • No VOC program in place on digital channels • VOC viewed as being a marketing benefit / responsibility • No ability to measure NPS or CSAT 	<ul style="list-style-type: none"> • Poor audience and retention KPIs • Marketing ROI modelling based on 'last click' only • Inability to track customers across channels • Poor marketing ROI relative to peers 	<ul style="list-style-type: none"> • Poor audience, consideration or conversion KPIs • No experimentation technology • No use of AB testing, or testing confined to limited functions (e.g. marketing)
<i>What impact can investment have?</i>	5.8 point increase in NPS within 9 months for Benefit Cosmetics through introduction of a cloud-based voice of the customer platform and app-based democratization of feedback across business functions	55% increase in return on ad spend for online luxury marketplace Reebonz through cross-platform marketing attribution and search targeting	49% improvement in test drive conversion rates for Lexus using A/B testing and rapid experimentation powered by Google Analytics 360 and Optimize

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