Why Direct-to-Consumer Businesses Are Struggling...and Why You Shouldn't Count Them Out

By Dev Patnaik

Is the direct-to-consumer model really dead? Not yet. This article explains how the challenge that companies should be focusing on isn't the DTC model itself, which has many strengths, but the way it's being implemented.

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The postmortems are complete and the obituaries are written—the direct-to-consumer model is dead. Or is it?

It's undeniably looking grim for many of the brands whose rise in recent years promised to transform commerce. Companies like Allbirds, Warby Parker and HelloFresh promised a new way to design, manufacture and sell shoes, eyeglasses and even meals. These companies were supposed to win by getting products to us on-demand, allowing them to scale up quickly and even generate revenue from recurring subscriptions like a tech company. DTC companies would offer consumers greater variety through their websites, and avoid the massive capital expenditures of brick-and-mortar stores.

The pandemic lockdowns poured gasoline on the DTC fire, fueling a model that doesn't require consumers to leave home. Venture capital funding poured in, hitting

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a peak of $643 billion in 2021, and bold new DTC brands seemed to spring up every week.

That all seems like a long time ago. Many big DTC names—from footwear brand Allbirds to eyeglass provider Warby Parker to apparel firm Stitch Fix—have yet to turn a profit, leading to widespread concerns that the whole idea is a flash in the pan. VC firms are running away—their funding for e-commerce firms plunged more than 70% last year from 2022.

Since the pandemic ended, multiple headwinds have combined to put DTC brands in trouble. Consumers are again craving real-life experiences. They want to go out and try on that pair of glasses or look at vegetables before buying them. At the same time, inflation has pushed up the cost of living for consumers, making them less willing to commit to the recurring monthly expense of a subscription. And inflation has put similar cost pressures on the supply side, crushing DTC companies' operating margins.

Product quality issues—such as those experienced by Allbirds' customers—have exposed how hard it is to scale rapidly while maintaining standards. At the same time, deeper-pocketed, established competitors have woken up to and responded to the DTC threat. Amazon and Walmart now offer a subscription option on many products that may beat DTC brands on price and convenience.

All these problems are very real—but none of them go to the core of what's really holding back DTC brands. The big challenge isn't the DTC model itself, which still has a lot of strengths. It's the way it's being implemented—and that's a very solvable problem.

To understand why, we need to go back over 80 years to the cornfields of Iowa.

Tech Adoption Lessons from the Cornfields

In 1943, two researchers at Iowa State University conducted a study to see how and when farmers chose to try out new types of hybrid seed corn. Their seminal study showed a bell curve of adoption among farmers. They noticed a group of "early adopters" who would take a chance on a new innovation before other farmers tried it out. In his classic book "Diffusion of Innovations," Stanford sociologist Everett Rogers later showed that this pattern of adoption was true across a wide number of technologies. He identified five distinct types of adopters: innovators, early adopters, the early majority, the late majority, and laggards. That model is still used by innovation strategists today.

New ideas win over groups on the adoption curve at different times and for different reasons. It's the job of businesses to understand these needs and implement design strategies that spur the broader diffusion of their product or service. Every stage of diffusion requires a distinct strategy.

This is exactly where DTC brands have gotten stuck—they've run into a technology adoption wall. Their initial growth was fueled by innovators and early adopters—those who are quick to change some key behaviors in order to try something new. The core challenge they face now is to adjust their design strategies to break into the wide part of the bell curve—the early majority of consumers who are more leery of changing their habits to take on something new.

DTC pioneers sold themselves to investors as being able to scale like tech firms. In fact, they only get the pain of tech firms without the pleasure. Their supply chain

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complexities hold them back from scaling as rapidly as true tech firms, but they still need to persuade people to try something unfamiliar.

Rather than designing features that appeal to early enthusiasts, these companies need to find ways to integrate their products into mainstream consumers' existing ways of doing things.

Take eyewear. Like many other consumers, I'm not ready to make the leap in behavior to order glasses through the mail. When I want new glasses, I go to my optometrist, get my eyesight tested, and see how new glasses feel and look on my face. Getting glasses through the mail just feels too weird. As far as the DTC eyewear market goes, I'm part of the early majority, or maybe even the late majority. I won't do it until everyone else is doing it.

However, adjusting their strategy to nudge consumers toward wider adoption shouldn't mean throwing the whole DTC model out the window.

In reaction to their struggles, several big DTC names have been building out their own network of physical stores—the very model they were supposed to transcend. Moving from "clicks to bricks," Allbirds now has around 60 physical stores, while DTC mattress firm Casper has 66, and Warby Parker has over 220.

These companies have effectively turned their backs on the technology that made them distinctive. This is the equivalent of Tesla reacting to slowing electric vehicles sales by throwing in the towel and starting to make gas-powered cars.

DTC companies need to keep the faith in their business model. But they also need to understand how they can integrate better into the habits and rituals of mainstream consumers. This is the reason why Apple introduced keyboards for iPad users. It realized that later adopters would only come on board if they had a more familiar way to use the device.

For DTC brands, this means integrating their products into the behaviors that consumers already have. That doesn't have to mean taking on the heavy overhead costs of building their own stores. If Warby Parker had an online kiosk in my optometrists' office, I might be more willing to try them out.

Tesla did something similar when it invested in charging stations located right next to your office or your local Target store. They didn't ask you to go somewhere new to charge your car. They helped you charge your car at a place you were already going.

Some smaller DTC companies have discovered creative ways to crack into the mainstream. For instance, U.S. Kids Golf is a company that makes and sells golf clubs for young people. They offer a novel sizing system and a program to trade in golf clubs as kids grow taller. But the company also invests heavily in local tour programs to connect with young golfers at the driving ranges where they take classes. The goal isn't to change people's behaviors. It's to fit into the activities that people are already doing.

DTC isn't dead. Inflation will ease, supply chain problems will get fixed, and consumers will become less sensitive to higher prices. But those who go on to succeed will be the brands that recognize their core problem for what it really is and shift their strategy to break through to the mainstream.

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