JIM CLEAR
OCTOBER 2020

CLEAR DIGITAL

THE GROWTH OF DIRECT TO CONSUMER, SHOPIFY - AND DEVELOPING MULTIPLE CHANNELS

Introduction

- One of the most talked about developments for both ecommerce and general retail in recent years has been the rise of "Direct To Consumer" (DTC), whereby brands are bypassing traditional retail outlets/websites and selling direct to customers.
- 2020's unfortunate events have led to a well documented large increase in home deliveries, including DTC brands generating record sales across sectors as diverse as food kits, mattresses and sportswear.
- The rise in marketplace sites (especially Amazon and eBay) has certainly played a part in increasing DTC sales, and Clear Digital recently explored this in the deep dive "The UK marketplace sector – and the role of community". However, DTC websites are also rapidly expanding, particularly on the Shopify ecommerce platform.
- This document explores further the size and dynamics of the UK DTC sector, as well as examining Shopify (and similar ecommerce solutions) in order to understand more about DTC winners and their growth drivers, including expanding on to other channels...

DTC BRANDS IN THE NEWS...

"Gousto surpasses its 2019 total revenue in the first half of 2020"

"Emma Mattress sales grow by 120% in H1 2020 despite the Covid-19 pandemic"

"Gymshark hits £1bn valuation after securing major investor in August 2020"

"Nike's digital sales rocket 82% during June to August 2020"

"Shopify websites generated sales of $61bn in 2019, up 49% on the prior year"

Summary:
The growth of Direct To Consumer, Shopify - and developing multiple channels

- Total UK online sales for 2019 stood at £76bn, of which 8% (£6bn) were Direct To Consumer (DTC) sales.
- We can split Direct To Consumer operators into 3 distinct categories: subscription box services, DTC pure and DTC hybrid.

- Subscription box revenue was estimated at £700m in 2017 and is likely to surpass the £1bn mark this year. Such services are especially popular with a younger and more urban demographic.
- Male grooming has been forecast as the largest growing subscription category to 2022, and some originally DTC only brands such as Harrys are now available through more traditional outlets such as Boots and Sainsburys.

- In 2018, it was reported that more people were purchasing a mattress online than in store, with DTC brands driving this growth, accounting for 11% of the overall market in 2018, up from just 4% in 2015.
- And this growth looks poised to accelerate in 2020: Emma Mattress reported UK H1 growth of 120%. There have however been casualties in this competitive market, with US brands Casper and Leesa both exiting the UK this year in order to focus on their home country.
- 4 elements have been identified as key for DTC mattress success: simplicity, convenience, brand and pricing.

- Clothing is the most popular category purchased online in 2019, with 60% of UK consumers purchasing an item online at least once – and this is another area with a large DTC presence, especially for sportswear.
- 30% of Nike's sales are now digital DTC, over £4bn of global sales last year.
- One of the fastest growing sportswear brands is Gymshark, the 2012 founded UK start-up which was valued at over £1bn after receiving private equity funding in August 2020 to facilitate further growth and international expansion.
- Neither Nike nor Gymshark sell directly on Amazon, with Nike having pulled its two year pilot doing so in late 2019.

- Brands are increasingly apprehensive about Amazon monopolising all elements of the customer experience (from purchasing experience to data), a concern that ecommerce platform Shopify is specifically targeting as it aggressively grows its retail (and DTC) base.

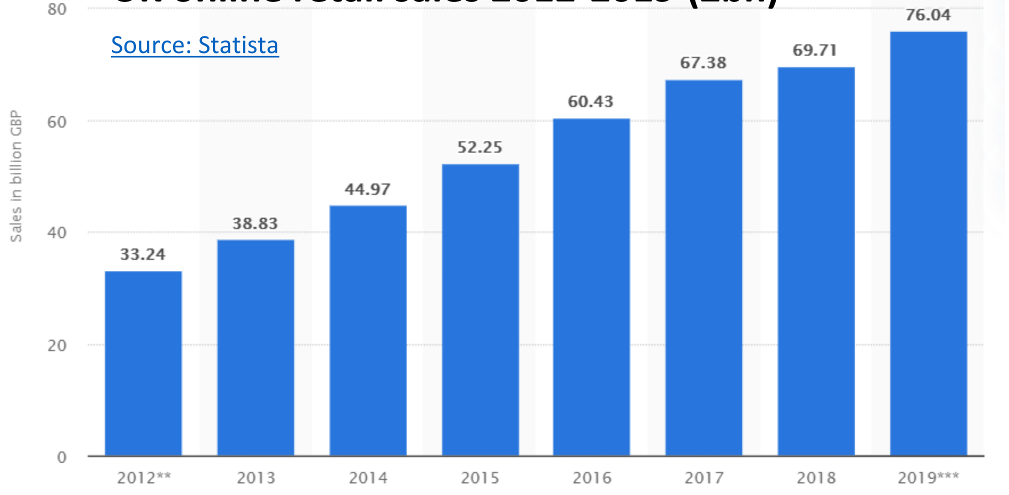
- As DTC brands look to expand, many are expanding their channel reach – for example Emma mattresses are now available in John Lewis, as well as the aforementioned Harrys in high street retailers.
- Although DTC does offer a sometimes lower cost and more efficient way to enter certain markets, moving towards a true multi-channel approach is usually required to gain further market penetration.

Contents

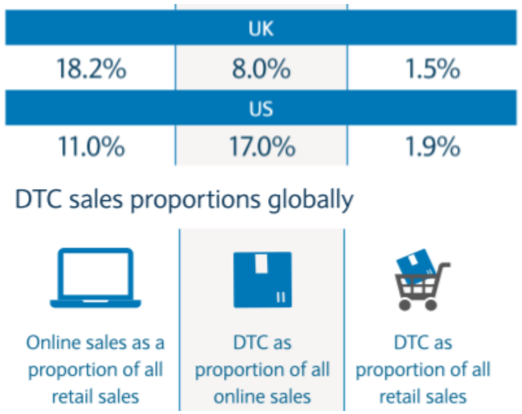
The UK Direct To Consumer (DTC) market is worth £6bn and accounts for 8% of the UK ecommerce market

UK online retail sales 2012-2019 (£bn)

Source: Statista



- Total UK online sales for 2019 stood at £76bn and as was reported in the recent Clear Digital report "The UK Marketplace Sector – And The Role Of Community" sales through marketplaces accounted for £26bn of this £76bn, with Amazon and eBay accounting for 90% of these sales.
- 2020 has already seen significant growth in online shopping due to Covid19 , with the ONS reporting that online sales accounted for a peak of 32.8% of all sales in May 2020, up from 18.8% in May 2019.
- Barclays have calculated that 8% of total UK online sales are DTC, while it is a much higher 17% in the US; albeit the higher share of total online sales in the UK mean that DTC accounts for a similar proportion of all retail sales in both countries.



Source: Going Direct, Barclays

➢ This means that DTC online sales within the UK are in the region of £6bn, of which subscription sales are just under £1bn. Standard online retail websites remain the key player with a 57.5% share of total online sales, followed by marketplaces with 34.5%, as the table below demonstrates…

TOTAL UK ONLINE SALES 2019 = £76BN						
ONLINE RETAIL WEBSITES		MARKETPLACES			DIRECT TO CONSUMER	
£43.7BN (57.5% share)		£26.2BN (34.5% share)			£6.1BN (8.0% share)	
Other retailers	Amazon	Amazon	eBay	Other MP	DTC websites	Subscriptions
£36.4BN	£7.3BN	£14.1BN	£9.1BN	£2.6BN	£5.2BN	£0.9BN
47.9%	9.6%	19.1%	12.0%	3.4%	6.8%	1.2%

Sources: Statista, InternetRetailing/Global Data, Amazon, eBay, Clear Digital, Barclays, Royal Mail.

It is possible to split Direct To Consumer operators into 3 distinct categories: subscriptions, DTC pure and DTC hybrid

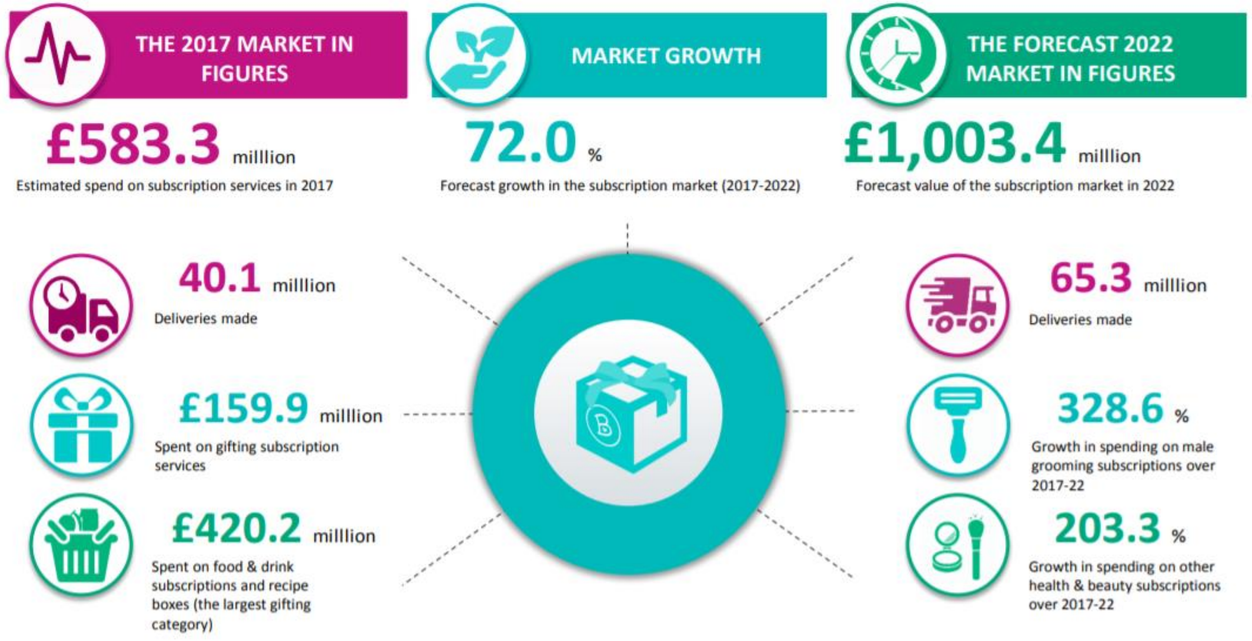
Subscription box services	A distinct and growing Direct To Consumer sector, Subscription Boxes (especially for Food & Drink) have seen significant growth this year due to the impact of Covid-19.
Direct To Consumer (pure)	Brands that have originated selling purely to customers online. However, as such brands expand, many are expanding their channels and now selling through more traditional stores/websites – we will explore this in due course…
Direct To Consumer (hybrid)	Generally more traditional brands that are now increasing their focus on their DTC operation as well – often very strong, differentiated brands with existing loyal customers.

- We are now going to take a look at the subscription box sector as a whole (with a focus on male grooming products) before then examining the DTC mattress and sportswear categories…

Subscription boxes in the UK

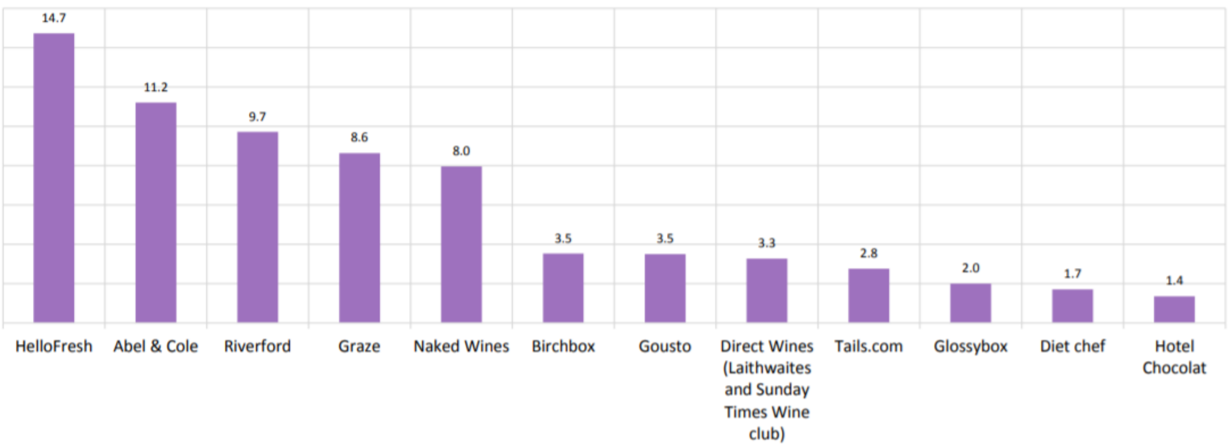
- A distinct and growing Direct To Consumer sector, Subscription Boxes (especially for Food & Drink) have seen significant growth this year due to the impact of Covid-19.
- For example, UK based [food recipe box company Gousto]announced in July that [it had already surpassed its total revenue for 2019 in the first half of 2020]. There was a particular surge in demand for food box deliveries in the second quarter of the year following the introduction of Covid-19 lockdown measures, with 5m meals delivered in June compared to 2.5m in January 2020.

- Subscription boxes were already expected to see significant growth in the coming years, as the Royal Mail outlined in its detailed "[The UK Subscription Box Boom Report]" in February 2019.
- Estimating spend on subscription box services at between £583-700bn in 2017, the Royal Mail forecast that this would rise to £1bn by 2022. With this year's events, it seems fair to assume that this breakthrough figure will now be met two years earlier, in 2020.
- In 2017, 27.4% of UK consumers were signed up to at least one subscription box service, which are particularly popular with younger (this figure rises to 52.1% for 25-34s) and urban customers (50.7% for Londoners).
- Some other key information from the Royal Mail report is presented visually on the right…



- Food & drink brands dominate the market, with HelloFresh on top
- Beauty services like Birchbox are also rapidly gaining traction, while we expect male grooming services, like Cornerstone to soon make their mark on the top ten

Market share of leading subscription brands 2017
Figures on the chart are percentages



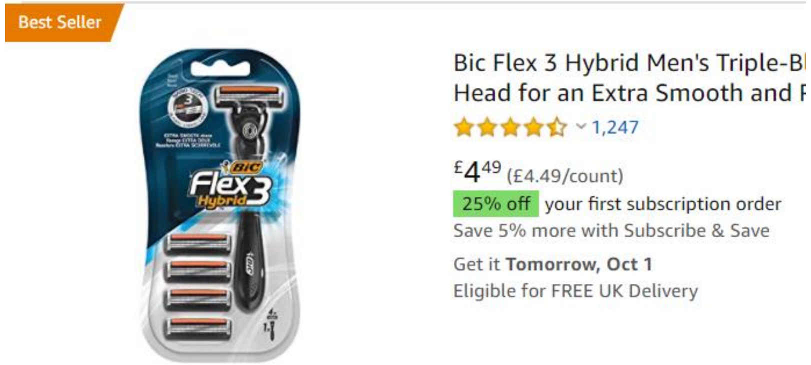
Subscription boxes: focus on male grooming

- Although originally driven by start-ups in the main, as subscription boxes grow in popularity we are beginning to see more established retailers and brands also enter the market in various ways.

- One of the originators in online subscription boxes, Dollar Shave Club started as a razors only service in the USA in 2011, before it was acquired by FMCG giant Unilever for $1bn in 2016 and has since expanded to offer a wider range of male health and beauty products.
- Unilever's main rival, Proctor & Gamble, has adopted a different strategy for their DTC strategy in this sector, setting up a subscription service for their market leading Gillette brand which offers 15% off blades after a free trial period.
- Royal Mail have forecast that Male Grooming category will see the most significant future uplift of all subscription box categories, growing by 329% between 2017 and 2022, which would equate to 2m subscribers.
- Such growth is also helped by other start-ups such as Harrys, which increased its revenue by 250% between 2017 and 2018 in the UK. Harrys also demonstrate how the move to DTC is not just one way – as Boots and Sainsburys started selling Harrys products in stores last year.

- Further blurring the boundaries is the fact that anyone searching for razors on Amazon will be offered subscription rates (as with many repeat purchases, e.g. printer ink) for various different brands as shown on the left; typically 25% off your first order, then 5% off subsequent purchases.

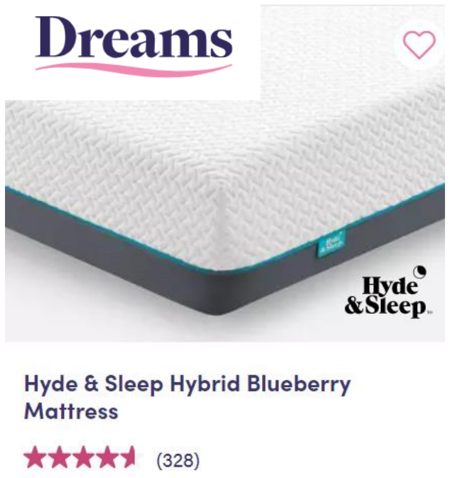
- Ultimately then, for some sectors, the growth in subscription boxes is simply one (very important) lever to help with driving customer loyalty, retention and spend.

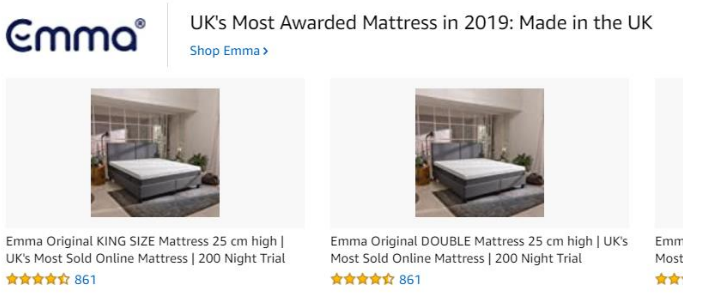


The UK online mattress market overtook the in-store market in 2018

- The mattress market is worth £895m annually in the UK, but is fairly fragmented with the top 4 operators accounting for only 31% of the market.
- The last 5 years have seen a number of new, increasingly high profile DTC “bed in a box” brands – such as Emma, Eve, Simba and Nectar – enter the market as challengers to the more established likes of Silentnight, Sealy, and Airsprung.
- The National Bed Federation reported in 2018 that more people were now purchasing a mattress online rather than in-store, with 51% of mattresses bought via the web, meaning that this sector is well suited for DTC online brands.
- And DTC brands are an increasingly large part of the market; accounting for 11% of all sales in 2018, up from 4% three years before - growth that is likely to have continued into 2019 and 2020 thus far. For example, Emma Mattress have reported H1 UK sales revenue growth of 120% with turnover of £40m.

- Such innovation and subsequent market shifts have led to traditional retailers responding in a variety of ways.
- Beds specialist Dreams have introduced their competing “bed in a box” Hyde & Sleep range, with a similar design and simplicity of choice as the DTC challengers.
- Other retailers have started stocking these DTC brands themselves, both online and instore. For example, John Lewis sell Emma and Simba mattresses while you can buy Simba, Eve and Nectar from Argos.
- Emma are also very prominent on Amazon, with a search for “mattresses” returning the sponsored ad shown to the right as its first result…
- Thus, as we’ve seen with male grooming subscription services, some DTC mattress brands are expanding their channel reach, which is explored more on the next page.





We can identify 4 elements that are key to success for DTC mattress brands…

1. Simplicity

- Knowing where to start when shopping for a mattress can be confusing: do I want memory foam, pocket spring, firm/medium etc.
- Whereas as a customer, we just want to know “is this mattress comfortable and will it give me a good night’s sleep”?
- The “bed in a box” brands therefore offer a limited range of mattresses (typically between 1 to 4 options) basically saying that “we’ve focused on our leading couple of models that offer XYZ…”
- This is a very similar approach to Apple for example, who offer a relatively small range of iPhone options compared to competitors.

2. Convenience

The move to online shopping’s convenience is well documented. However, the “bed in a box” model typically offers other convenient elements too:

- Free and convenient delivery – the mattress being rolled in a box vastly increases the amount of courier options available to deliver, benefitting both customer and the DTC operator themselves.
- Free trial and returns: all “bed in a box” brands offer a trial period (typically 100 or 200 days) to test drive the mattress and return for free if not satisfied; Emma have stated that they have a less than 5% returns rate. Starting to sell mattresses through retailers such as John Lewis also offers opportunities for customers to showroom test mattresses if they so wish.

3. Brand

- Branding plays a very important role in the DTC players, with a much fresher and design-led product: clean subtle colours compared to the sometimes garish patterns of the traditional mattress brands.
- Overall brand identity follows, from elegantly designed websites to consistent tone of voice for social media, advertising etc.
- And overall promotion of the brand is vitally important in such a competitive market – as brands have started to scale, we have seen them expand from digital only presence to more traditional media such as TV, press and outdoor advertising.
- Also, as the average purchase cycle of a mattress is every 8 years, customer acquisition is obviously the main focus rather than customer retention (for now) albeit word of mouth has been identified as especially important in this sector too.

4. Pricing

- At the end of the day though, you are buying a new mattress not an iPhone, so the price of the product is of course very important.
- Most DTC players tend to price promotionally with varying discounts to the standard price promoted via leaflets, ads or on the website itself. For example, the start of this year saw very prominent advertising in press and outdoor from several key players.

In such a crowded market, can all DTC mattress brands survive - and what are the future prospects for growth?

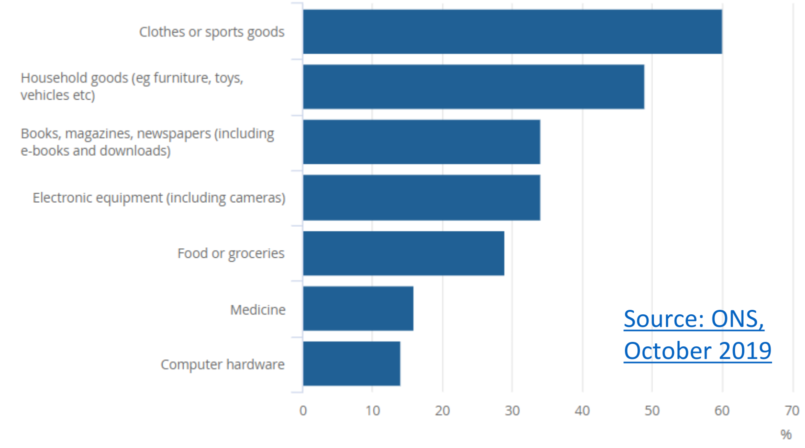
- But with so many similar brands competing in this the finite market (there are only so many mattresses that we all need!), what is the future for this category?
- As with many sectors, it is likely that time will see consolidation into just a few winners, as many other brands fall by the wayside or merge/are acquired to survive. Indeed a merger between Eve and Simba was close to happening last year, before being called off.
- We are already starting to see this in the UK market, with the much hyped Casper having retreated from the UK (and the rest of Europe) in May this year, to focus on its domestic market in the USA, following a significant slump in its share price after its IPO on 6th February this year. Casper's significant overspend on marketing costs has been identified as one reason for its recent struggles.
- Another US "bed in a box" brand Leesa also exited the UK earlier this year.
- By contrast, Frankfurt based Emma Mattress was profitable for the second year in 2019 with global sales of £125m, up 86% year on year.
- Emma's success has been based on a more gradual roll-out than Casper; first its home market of Germany in 2013, then selected European territories, before expanding beyond Europe for the first time in 2018 into 7 new countries including the USA, to take its total to 22.
- This demonstrates how the now classic tech playbook of spending big to gain early customer penetration (see: Uber, Netflix, Deliveroo etc etc) does not suit all market sectors. And the infrequently purchased, bulkily complex to deal with mattress definitely fits that bill.

- **It therefore seems fair to state that although successful brands in this sphere may begin as DTC start-ups, expanding reach further (and profitably) is key to ultimate success.**
- **This is backed up by Emma's co-founder Benjamin Quiroga-Rivera stating that *"our profitable and sustainable business model focuses on product quality and clearly communicating product differentiation and function"* while adding *"Emma Mattress continues to build an omnichannel presence that strengthens its position on the UK's retail landscape"***

Clothing is the most popular category purchased online, with notable DTC successes including both start-ups and legendary brands

Figure 8: Clothes or sports goods was the most popular reported retail purchase online in 2019

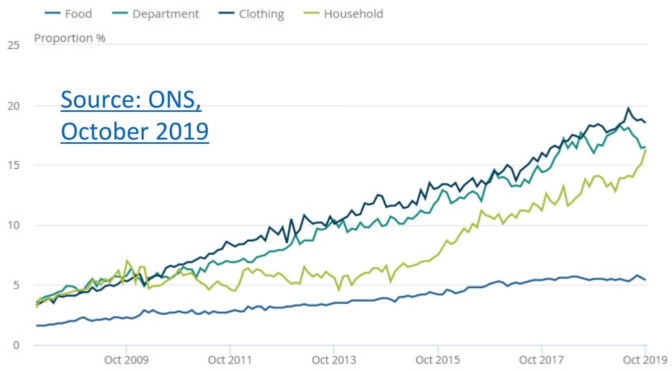
Great Britain, 2019



Source: ONS, October 2019

Figure 7: There have been increases in online sales as a proportion of all retailing within food, department, clothing and household stores

Seasonally adjusted, Great Britain, January 2008 to July 2019



Source: ONS, October 2019

- Clothing/sports goods was the most popular category purchased online in 2019, with 60% of UK consumers purchasing an item online at least once.
- 18.5% of clothing sales were recorded online in October 2019.
- Despite a general pandemic related slowdown in clothing sales during 2020, online clothing sales still grew by 33% year on year in August 2020; albeit this was a slower rate than other categories as the table below to the right demonstrates…

- The sportswear category is also one of the most dynamic for DTC brands, with both global behemoth Nike and UK start-up success story Gymshark generating recent headlines…

"Nike's digital sales rocket 82% during June to August 2020"

"Gymshark hits £1bn valuation after securing major investor in August 2020"

Table 2: Sector summary for online sales, August 2020

Value seasonally adjusted, percentage rates, Great Britain

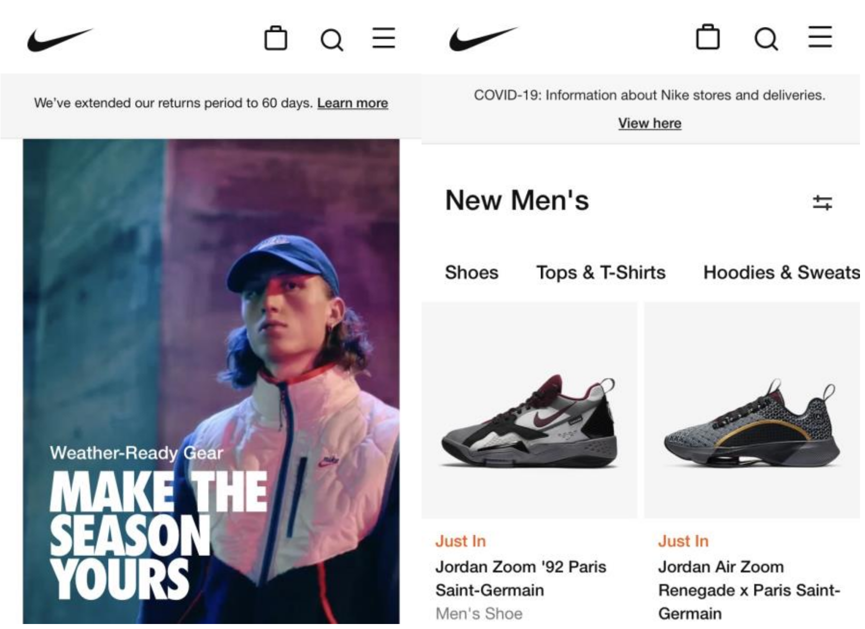
Source: ONS Retail Sales, August 2020

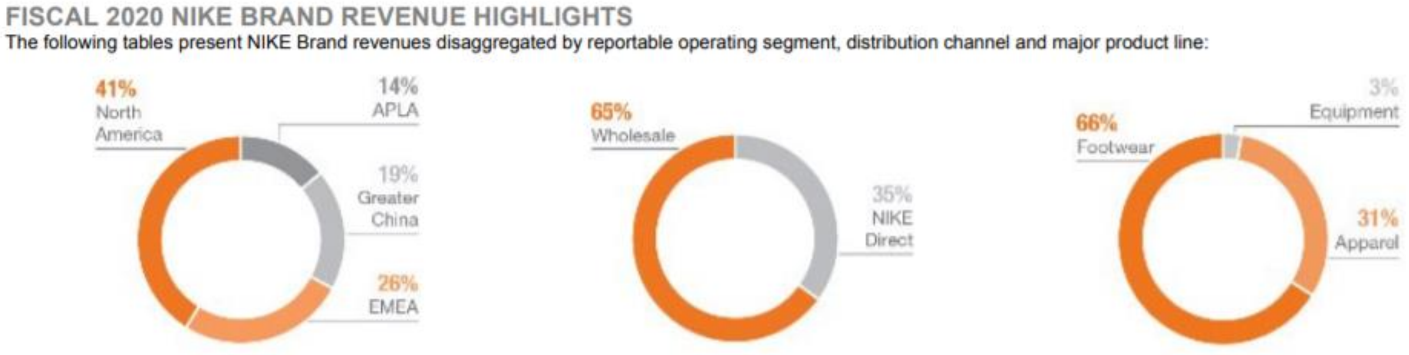
Category	Index categories and their percentage weights	Year-on-year growth	Month-on-month growth	Online sales as a proportion of retailing
All retailing*	100.0	51.6	-2.5	28.1
All food	12.0	89.5	-4.6	10.4
All non-food	35.2	58.2	-2.6	24.5
Department stores	7.9	63.5	-0.6	29.3
Textile, clothing and footwear stores	12.2	33.1	5.4	29.2
Household goods stores	6.6	79.4	5.7	23.0
Other stores	8.5	73.9	-16.5	19.2
Non-store retailing	52.8	38.4	-1.6	81.9

➢ We will now consider the recent success and different models of Nike and Gymshark…

30% of Nike’s sales are now digital DTC, over £4bn of global digital sales in its last financial year

- Nike has recently been in the news following the announcement of its latest quarterly trading results, for June to August 2020, when it saw global digital sales soar by 82% (including a triple digit growth in EMEA). This significant increase in ecommerce helped to offset a decline in store sales, with Nike’s overall global revenue declining by just 1% at $10.6bn, well above the $9.15bn that Wall Street analysts were forecasting.
- Nike chief executive John Donahoe said the shift to online sales could be a permanent trend: "*We know that digital is the new normal. The consumer today is digitally grounded and simply will not revert back*”.
- Nike has said its digital sales now make up at least 30% of its total quarterly sales, a threshold they had previously aimed to hit by 2023.
- In addition to its digital DTC channels, Nike operate 935 Nike branded stores (240 in the USA and 695 internationally) as well as obviously selling through a huge variety of other retail stores.
- And Nike’s DTC operation is making up a increasingly large proportion of its sales: 35% in its FY2020 (June 2019 to May 2020) compared to 32% in FY2019 – with this shift driven by a 49% increase in digital sales for the year (to $5.5bn/£4.2bn), growth which has since accelerated to 82% for its last quarter, as per above. Wholesale sales were a 65% split, compared to 81% in 2013.





Source: Nike annual report, June 2019 to May 2020, page 32

One of the highest profile UK DTC success stories, Gymshark was recently valued at over £1bn

- UK athleisure start-up brand Gymshark was in the news in August when US private equity firm General Athletic purchased a 21% stake in the company, which valued the brand at over £1bn thus conferring upon it "unicorn" status.
- This partnership is designed to facilitate further growth and international expansion, specifically into North America, where Gymshark has already established its largest customer base.
- Founded by Ben Francis in 2012 while still at university, Gymshark expanded rapidly and was named the UK's fastest growing company in 2016 by The Sunday Times Fast Track 100, having achieved sales of £9m in 2015. Gymshark sales then exceeded £100m just three years later, with latest annual sales now above £250m and continuing to accelerate.
- Gymshark is a pure DTC brand in that it has generally sold only through its website with customers in 131 countries. However, it did open its first pop-up shop in Covent Garden earlier this year, just before lockdown.
- With a clear target market of "18-25-year-olds whose lives revolve around fitness, fashion and music", much of Gymshark's success has been down to its social media activity, which includes paying 125 key Instagram influencers to promote Gymshark. Such success on Instagram has seen a shift in Gymshark's customer base over the years; after initially targeting male gym enthusiasts, women now account for about two thirds of sales.

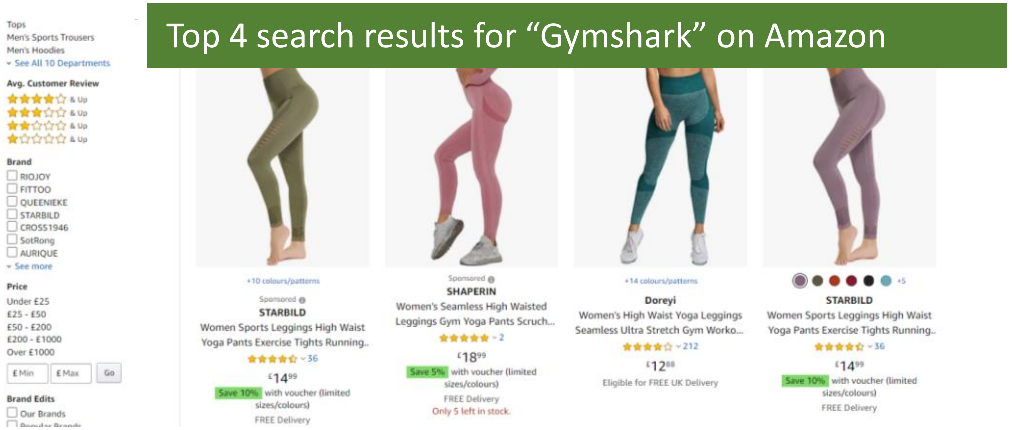
- With aspirations to challenge Nike and Adidas globally, it will be interesting now to see how far life as a pure DTC brand can take Gymshark – or will they need to expand into other channels, such as traditional retail or other online channels (for example, Gymshark products are not currently available via Amazon). Permanent experiential flagship stores in London/New York along the lines of Niketown would seem a likely first step here, but time will tell.

GYMSHARK

Amazon and DTC: Gymshark and Nike’s approaches

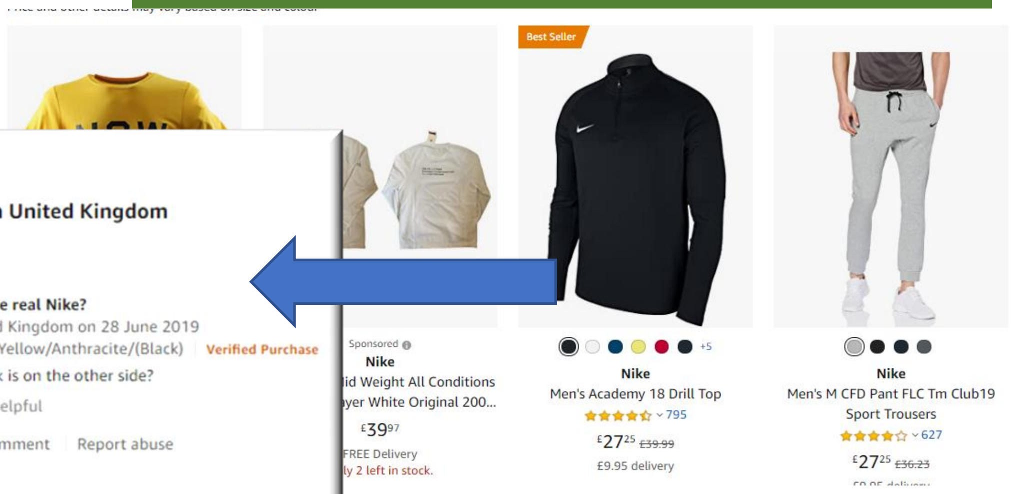
- One interesting similarity between Gymshark and Nike is that neither sells directly on Amazon.
- **Gymshark** products are not present at all on Amazon, with a branded search instead resulting in a range of similar products from competitor brands (see right).
- It’s a slightly different story with **Nike**, which started a pilot to sell its products directly in 2017.
- This changed in November 2019 when [Nike announced that it would cease doing so](), stating “*As part of Nike’s focus on elevating consumer experiences through more direct, personal relationships, we have made the decision to complete our current pilot with Amazon Retail. We will continue to invest in strong, distinctive partnerships for Nike with other retailers and platforms to seamlessly serve our consumers globally.*”

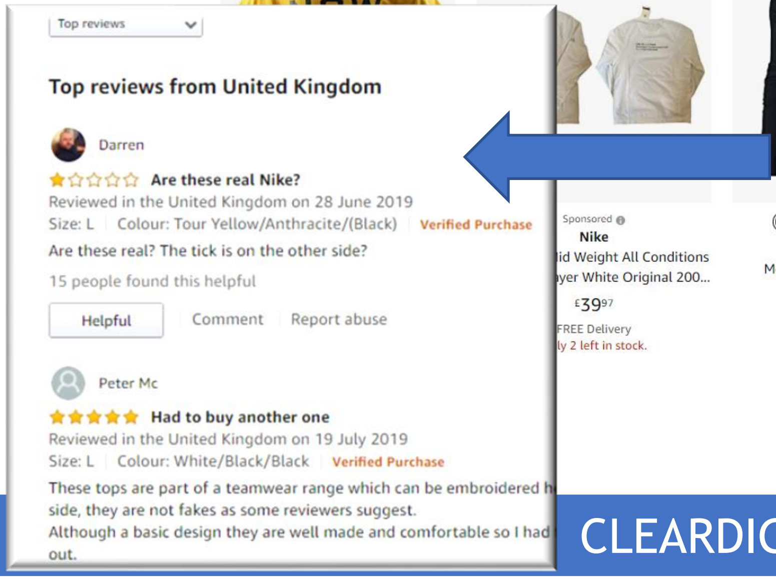
Top 4 search results for “Gymshark” on Amazon



- A large range of Nike products do remain for sale on Amazon, but all are sold via its existing retail partners. However, Amazon’s unwieldy nature can lead to customers questioning whether all items are genuine – for example with the “top review” for the top “best seller” product returned via a general “Nike” search on Amazon (see right). The sale of counterfeit products has long been an issue for Amazon - as well as eBay – albeit an area that [Amazon is continually trying to eradicate]().
- But there are likely other reasons that Nike will have stopped selling directly via Amazon, including:
  - Amazon “owning” the customer data/relationship
  - Wariness of Amazon’s overall strength (with [Amazon now accounting for 39% of all online sales in the USA]()).
  - Commission/take costs (albeit in line with traditional retail margins)
  - Better control on showcasing Nike brand and products

Top 4 search results for “Nike” on Amazon





Growing ecommerce platform Shopify is increasingly targeting DTC brands - and as a “trusted” alternative to selling on Amazon

- One big recent trend within the DTC – and wider ecommerce – sector has been the growth of the Shopify platform.
- Shopify was originally built to launch the 3 Canadian founders’ Snowdevil snowboarding equipment website in 2004, and was then launched for use as a general entry level ecommerce platform in 2006.
- Key to Shopify’s recent growth has been the launch of its [Shopify Plus premium enterprise solution in 2014], which allowed companies to remain with Shopify as they grew in scale rather than switching to competitors such as Magento or Demandware (now Salesforce Commerce Cloud). [Over 7000 brands] now use Shopify Plus.
- By the end of 2019, Shopify had over 1m businesses globally using its platform, [generating total gross sales of $61bn, a 49% increase over 2018.] By way of comparison, eBay’s annual global sales in 2019 were $85bn, but this represented a fall of 5%.
- Shopify itself took $1.6 bn in revenue from its services, +47% YOY. Within this, Subscription Solutions revenue grew 38% to $642m, while Merchant Solutions revenue grew 54% to $936m.

- Shopify particularly targets DTC customers, with a [client base] ranging from small one man bands to global brands such as Nestle, Heinz and Lindt.
- And for further growth, Shopify is on the offensive particularly in 2 main areas:
    1. Against Amazon (for the reasons outlined on the previous page).
    2. Against other ecommerce platforms, especially Magento (see next page for more).

shopify

Shopify’s market cap of $117bn in early September was 3 times larger than eBay and 8 times larger than Etsy.

[Source: Bangkok Post]

DIGIDAY — NEWSLETTERS | SUBSCRIBE | LOGIN

‘You need a platform you can trust’: How Shopify is pitching itself to Amazon-wary DTC brands

This provocative heading is for a Gymshark case study on the Shopify Plus website…

How Gymshark outgrew Magento and replatformed to scale internationally

Shopify's main competitor is Magento; with less retailers but higher average sales amongst them

- Actually first released to the market after Shopify (in 2006), Magento was originally launched in 2008 by Varien Inc, a US based private company.
- Magento did initially grow faster than Shopify, especially after eBay purchased Magento in June 2011.
- However, Magento was then sold by eBay in November 2015 and purchased by the private equity Permira fund. A subsequent sale in May 2018 saw Adobe purchase Magento for $1.7bn with a view to integrating it into Adobe Experience Cloud, its Enterprise CMS platform.

Magento
An Adobe Company

- With 4 different owners over the past decade, Magento has also developed its offering significantly in that time, and currently offers 2 different main solutions:

1. ***Magento Open Source***. Previously known as Magento Community Edition, this basic ecommerce system reflects Magento's open source origins.
2. ***Magento Commerce***. Previously Magento Enterprise, this enterprise solution offers two options: Commerce Cloud (where Adobe provide hosting) or On-Premise (where the retailer will purchase separate hosting). Magento released a new version of Magento Enterprise/Commerce in beta in 2015, strongly encouraged all retailers to upgrade to Magento 2.0 and recently ended support for Magento 1.0.

- One of Magento's strengths has been the sheer amount of external and partners support, with over 300,000 coders across the world working on sites using the platform, and a huge array of plug-ins available to develop and optimise individual sites.
- Since Adobe's purchase of Magento, they have been focusing very heavily on Magento Commerce, with even the landing page for Magento Open Source trying to steer users to Commerce (see right…).
- Magento sites still generate more revenue than Shopify sites: $155bn last year, well ahead of Shopify's $61bn.
- However, there are significantly more retail websites using Shopify, with 250K+ on Magento, compared to Shopify's +1m retailers.
- This amply demonstrates how Shopify is particularly strong with smaller retailers, averaging approx $61K annual sales per retailer – compared to $620K for Magento, who have a higher penetration of omni-channel retailers compared to Shopify's DTC focus.

Magento Open Source

Magento Open Source software delivers basic eCommerce capabilities that allow you to build a unique online store from the ground up. However, for those who need a full featured eCommerce solution, we recommend Magento Commerce which includes our optimized cloud architecture and hosting as well as AI-powered merchandising and analytics.

Magento v Shopify - so, which is best? Fight…!

No, not really. The right solution for any business will of course vary based on individual requirements. What is interesting however is that despite operating in the often more sedate B2B sector, Magento and especially Shopify seem to be calling each other out to a great degree – witness the comparison guide on Magento's website below, plus the more punchy Gymshark case study on the Shopify Plus website (see right for some of this…pretty strong stuff…!)

- ➢ There is plenty of further reading available on Magento, Shopify and all the other mid market/SME ecommerce solutions (Big Commerce, Woo Commerce etc etc) and I'd particularly recommend Ecommerce Guide, including the 3 articles below:

Magento vs. Shopify Comparison Guide

About the Guide

Magento vs Shopify

Experience-driven, limitless commerce vs. template based, non-differentiated commerce

Don't compromise on your commerce experience by using a one-size fits all solution. Magento is ideal for fast-growing small businesses.

Unlike Shopify, Magento:

- ✓ Allows you to fully control how you deliver your customer experience, without limits
- ✓ Evolves as your business grows and changes over time
  - ✓ Supports expansion - Manage multiple stores, transacts in multiple countries, languages, currencies, and use several worldwide shipping providers, all within a single instance
  - ✓ Leverages Magento's large Extensions Marketplace to add rich feature/capabilities and enable integrations with your other digital tools (e.g. ERP, CRM)
- ✓ Enables merchants to sell customizable products and digital goods online
- ✓ Enables merchants to handle the complexities of B2B commerce

Use this Magento vs Shopify comparison guide to weigh your options. The future of your eCommerce platform and potential business could be impacted by this pivotal information.

General guide to the best ecommerce platforms

Shopify vs Magento vs Big Commerce

Choosing an ecommerce platform

How Gymshark outgrew Magento and replatformed to scale internationally

Challenge

The accelerated growth Gymshark was experiencing from its inception through 2015 required a platform that could handle significant spikes in traffic and grow in lockstep with the brand. But Ben and the Gymshark team quickly regretted their decision to choose Magento as their commerce platform, in part, because of the length of time it took to get up and running.

"It took six to eight months just to build the site," Ben recalls. "By the time the site was finished we had doubled in size and had already outgrown the site."

The situation quickly went from bad to worse as the Magento site that cost hundreds of thousands of dollars to build and maintain crashed on the grandest stage of all for a retailer; Black Friday. The site, according to Ben, was down for eight hours and cost Gymshark an estimated £100,000.

> **"That was supposed to be a huge day for us but we let our customers down. It didn't matter that it was Magento's fault, it's our brand and customers blamed us which really hurt.**
>
> **Ben Francis**
> Founder, Gymshark

Results

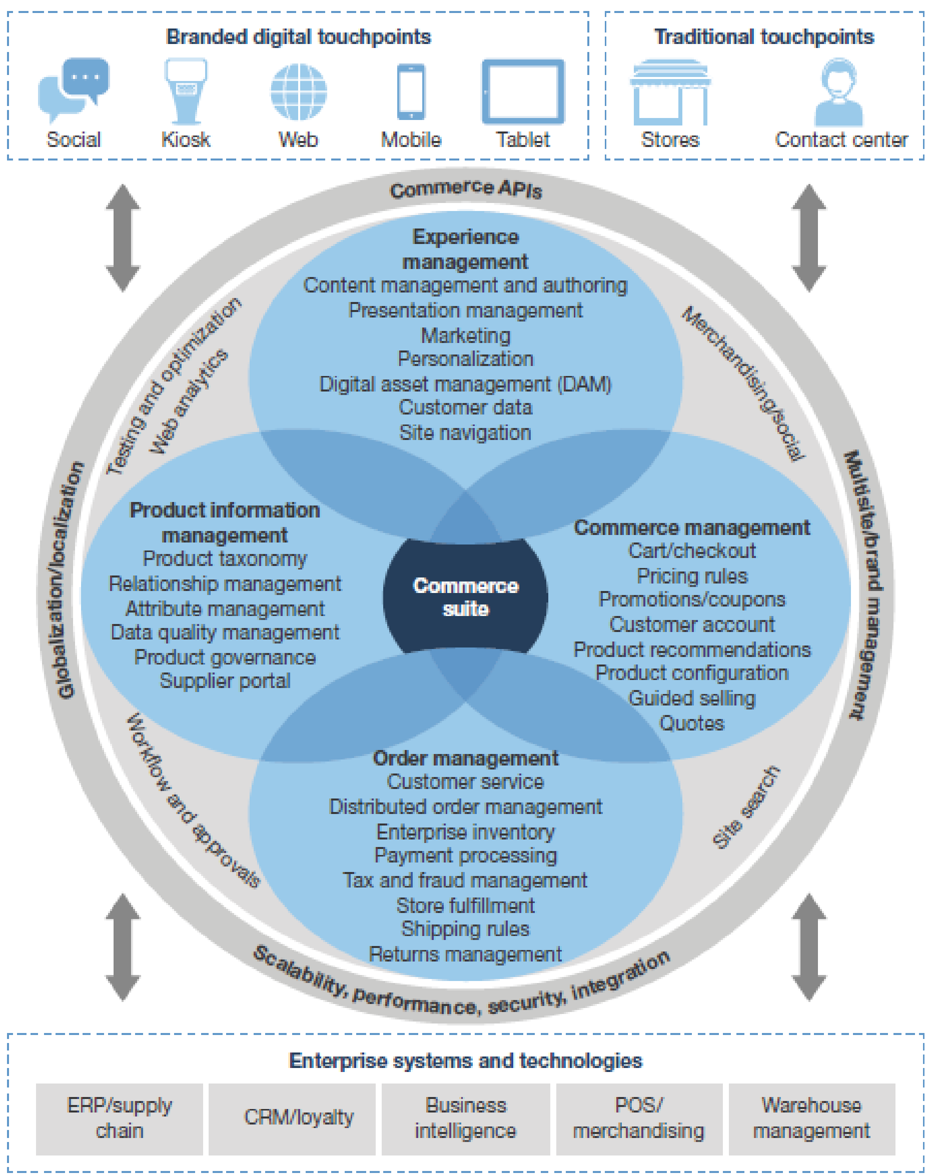
Since migrating to Shopify Plus, the Gymshark team are able to focus solely on growing the brand and experimenting with innovative new products like fitness apparel that can provide athletes additional energy or next generation wearables that may prevent injuries.

Trusting that Shopify Plus can scale no matter how rapidly Gymshark grows helped the company reach £41 million in sales during 2017, generate 5.1 million social media followers in 131 countries, and become one of the fastest growing global fitness and apparel brands globally.

"We have the same morals and values as we did when we were a small company," Ben says. "Each of these customers is a human being and deserves to be treated the way I'd wanted to be treated."

While highly important, a successful DTC operation requires more than just an impressive digital shop front

FIGURE 1 Today's Commerce Suites Support Four Core Pillars Of Functionality



- Of course, there is more to being successful within Direct To Commerce than selecting your ecommerce platform and developing your marketplace strategy.

- As shown on the left, Forrester have developed a very useful model demonstrating all the possible touchpoints and interfaces for ecommerce success. While not every single element shown may be appropriate for DTC sales (eg stores, kiosks, POS etc), certain **"back of house" and logistics** components are essential to get right, for example:
  - ERP (Enterprise Resource Planning) system
  - Warehousing
  - Delivery
  - Order management – including customer services, payments, returns etc

- In addition, **effective marketing plans** are of course fundamental to any strong ecommerce operation, whether that be search, email/eCRM, social media, affiliate marketing, direct mail etc etc.

- Clear Digital's founder Jim Clear has a wealth of experience across all digital elements: particularly ecommerce, marketing, commercial and leadership. [Find out more here on the Clear Digital website](#).

It is common for leading DTC brands to expand their channel reach as they grow

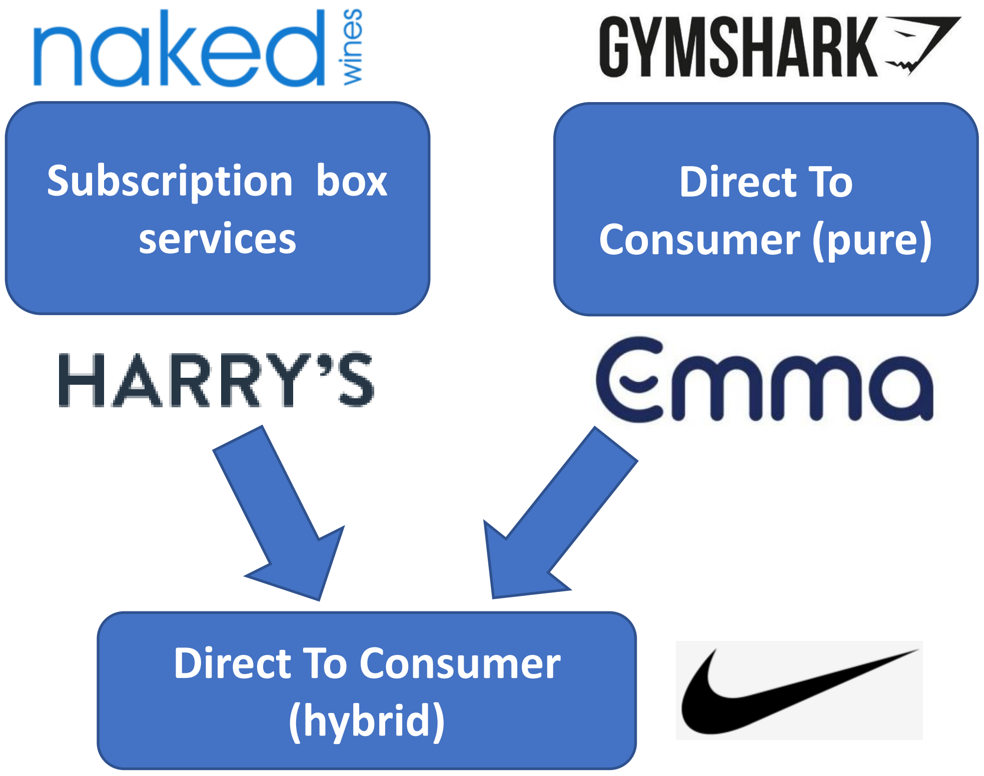
- Despite selling products with hugely different price points and purchase frequency (multiple times per year vs once every 5-10 years), Harrys and Emma Mattress have actually followed similar distribution routes – building on initial DTC success into multiple purchase channels, now available via many mainstream retailers and websites.
- Whereas looking at the sportswear sector, established brand Nike is unsurprisingly available across all channels – while Gymshark is still pretty much exclusively DTC through their website. However, with recent external investment plus pop-up shop trials, will Gymshark expand their channel reach, as Emma and Harry's have done before them?

PURCHASE FREQUENCY →

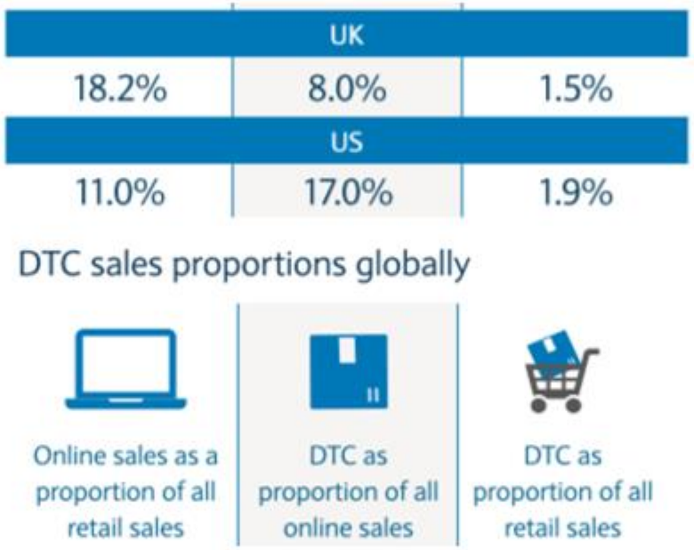
PURCHASE CHANNELS AVAILABLE	Emma	Nike	GYMSHARK	HARRY'S
DTC Website	✓ Initial route to market, still dominant channel	✓ Ever growing, now 30% of all sales	✓ Primary channel, over £250m in annual sales	✓ Initial route to market, still subscriptions focus
Amazon	✓ Including Amazon branded store	✓ ✗ Sold via other retailers only, not Nike direct	✗	✓ ✗ Sold via other retailers only, not Harrys direct
Other websites	✓ Available on John Lewis website	✓ Wide availability across sports/dept sites	✗	✓ Available on Boots, Sainsburys websites
Branded physical stores	✗	✓ 935 Nike branded stores worldwide, including flagships	✓ Pop-up store trials pre-pandemic (Covent Garden)	✗
Other physical stores	✓ Available in John Lewis stores	✓ Wide availability across sports/dept stores	✗	✓ Available in Boots, Sainsburys stores

In conclusion, while DTC is growing in popularity, for many successful brands it still remains a starting point for a more omni-channel approach

- We can therefore see that brands' DTC models can shift over time, as they pivot from both pure subscription (e.g. Harrys) or pure DTC website (e.g. Emma) into a DTC hybrid model, with products also available to buy via other retail websites and in some case stores.



- It does therefore appear that although DTC does offer a sometimes lower cost and more efficient way to enter certain markets, moving towards a true multi-channel approach is usually required to gain further market penetration.
- A helpful sense check to this is provided by the figures from Barclays that we looked at on page 5, and shown again below. Although online accounts for 18% (and growing) of all retail sales, DTC is only 8% of this online split. Therefore, 98.5% of total UK sales are still non DTC, so traditional channels such as high street shops and retail websites still remain fundamental for most businesses to scale up once reaching a certain revenue ceiling.



Source: Going Direct, Barclays

For More Information…

Visit: cleardigitaluk.com
Email: jim@cleardigitaluk.com

CLEAR DIGITAL