How digitally native brands are upending traditional retail: A primer

NielsenIQ

Digital disrupters are making a splash in brick and mortar

Digitally native brands (began online, often direct to consumer—DTC) have fundamentally changed the health and beauty landscape over the past few years.

As traditional barriers to entry fall, the game has changed. Long gone are the days when a new product needed to win a retail buyer's approval before being able to be seen by shoppers. Now, seemingly all you need is a product and a website to launch a CPG brand.

Digitally native brands are increasingly incubating online and moving into traditional retail once they have proven their product success, upending the traditional innovation cycle.

Digitally native brands are overthrowing traditional brands

DTC shave brand Harry's launched in-store in 2016 and in 2018 became the **#2** player in men's systems (non disposable razors + refill blades). Since their offline launch, Harry's has grown sales and share, and still holds the #2 spot at **15.8** unit share, with **$123M** in offline sales in the latest year.

More up-and-coming DTC brands have the potential to do the same....

Unit share by brand for category listed

Flamingo
10.2
Women's systems (shaving)

Dollar Shave Club
1.5
Men's systems (shaving)

Known for **affordable quality**

L .
1.4
Feminine care

Native
1.2
Deodorant

hello
1.2
Toothpaste

Lola
0.3
Feminine care

Oars + Alps
0.0
Deodorant

Smile Direct Club
4.9
Whitening kit

Cora
0.3
Feminine care

Large focus on organic and natural "**better for me**" products

Nielsen RMS | xAOC | Unit share of respective segment | 52 WE 2/27/21
Harry's became #2 unit share in the back half of 2018

Clicks-to-bricks brands growing and gaining importance

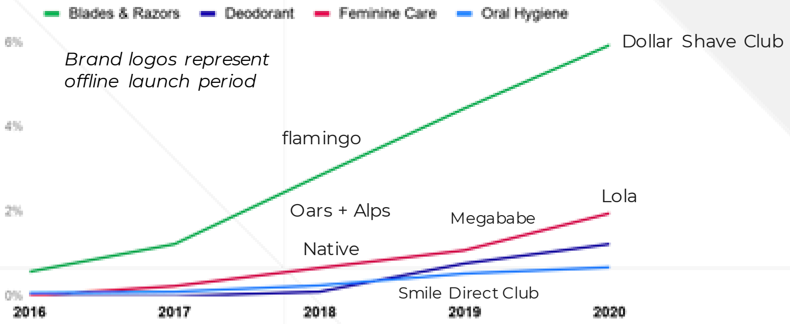
With each launch and expansion into brick and mortar, we see an acceleration of share for the digitally native brands, a trend we expect to continue as retailers bring in more brands.

Razors and blades have seen great success from online brands, accounting for 6% of all total units in 2020.

Although at a high level view these brands may seem inconsequential, many categories around the store are feeling the disruption of digitally native brands. Traditional brands are needing to pivot, innovate, rethink marketing, and the like to compete with the newcomers.

For the online brands, their offline launch helps to grow overall sales and bring in more shoppers.

Digitally native brands unit share of respective categories within xAOC continues to grow



Offline launches help grow the brands, who all experienced substantial shopper and dollar growth in 2020.

Total omni % change 2020 vs 2019		**Shoppers**	**Dollars**
Razors and blades	flamingo	90%	73%
	Harry's	16%	12%
Fem care	Lola	45%	49%
	Cora	3%	69%
Deodorant	Native	57%	86%

Chart: Nielsen RMS | xAOC | Unit share of digitally native brands within respective segment | "2020"= 52 WE 2/20/21, prior years are versus this
Table: Nielsen RMS + Homescan Panel + Rakuten eCom | xAOC + Online dollars and shopper change | calendar year 2020 vs 2019

Savvy retailers know the value of DTC brand consumers

High spenders

Buyers of DTC brands spend **21%** more on average within the retailers that carry them

New buyers

DTC brands on average source **10%** of volume from new buyers and drive consumers to shift purchasing habits

Valuable shoppers

- Higher income
- Younger
- Hispanic
- College educated, professional jobs

Battle for exclusivity

Target has developed a strategy for securing exclusivity with digitally-native brands during their initial launches into traditional brick and mortar retail. Mark Tritton, previous executive vice president, chief merchandising officer at Target said “At Target, we strive to give guests a chance to discover new brands we think they’ll enjoy, with an element of exclusivity that gives them more reason to choose Target.” Target also partners with up-and-coming brands through their retailer accelerator (Target Takeoff), helping the startups learn the ins and outs of mass retail.

Notable DTC brands currently exclusive* at Target include Quip, Winky Lux, Function, and Megababe.

However, the following each began their offline journey at Target as well:

- Oars + Alps
- flamingo
- Harry's
- Cora
- L .

Other retailers are also jumping on this trend, but in a more limited way. For example, Walmart partnered with Smile Direct Club and Lola to secure exclusive B&M launches, while CVS is bringing Public Goods to brick and mortar stores.

*Brands exclusive to Target and began journey at Target based on xAOC universe (traditional retailers; excluding specialty outlets)
High Spenders: Nielsen Homescan Panel | SBV | Total Target & Walmart | 52 W.E. 02.20.21 | DTC: Native Deodorant, Flamingo Harry’s ,Direct Shave Club, Smile Direct Club, Hello, Oar & Alps, Lola, Cora, L.
New Buyers: Nielsen Homescan Panel SCR | Total Outlets| 52 W.E post launch | Native Deodorant & Flamingo Blades & Razors
Valuable Shoppers: Nielsen Homescan Panel | DTK | Total Outlets | 52 W.E. 02.20.21

Digital expansion shows no signs of slowing down

2020 brought a rapid increase in online shopping, which we only expect to grow. However, there are still shoppers who prefer physical stores, and many shop both outlets, so offline presence is important for brands to reach consumers.

Remember, only the cream rises to the top. While we celebrate the winners, it's important to remember that not every digitally native brand is successful. For all the Dollar Shave Clubs and Natives, there are thousands who never make it to the stores shelves at all.

Omnishopping has given consumers access to a much larger number of brands than ever before, and while retail dynamics may have changed, the basic principles of brand marketing still remain true. All brands still must make sure to deliver quality products that meet consumer needs, and offer them at the right price and at the right location.

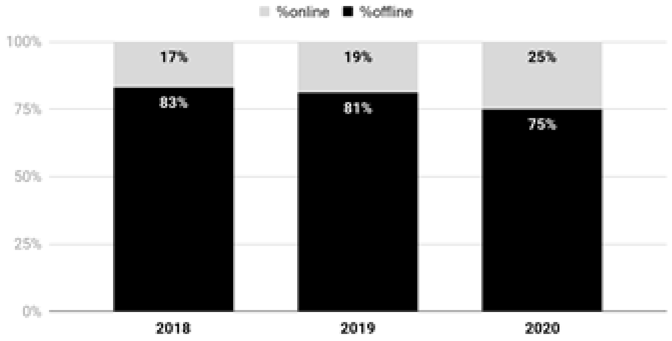
Retailers are bringing in DTC brands at an ever increasing rate.

Online purchasing continues to gain importance for health and beauty care, but offline sales still account for three out of four dollars spent.

Total omni health and beauty care $
% online versus offline

75%
Total HBC sales from B&M in 2020

31%
Increase in eCom's share of sales vs 2019



Nielsen RMS + Rakuten eCom | xAOC and Total Online dollars | Health & Beauty Care | calendar year listed

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Data Sources

Nielsen IQ Retail Measurement Service
Nielsen IQ Homescan Panel
Nielsen IQ eCommerce Powered by Rakuten

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