



Uncertain Environment Provides Unique Growth Opportunity for Direct-to-Consumer Brands

At Intrepid, our Lifestyle Brands team is thinking about what the world might look like post-pandemic. To provide our network with a glimpse into the future, we want to provide you with some insight based on what the experts on the front lines are seeing. We will start with the conclusion: while most felt that consumers would tighten their wallets during this economic shutdown, it turns out that consumers continued shopping online to the benefit of direct-to-consumer (DTC) brands who have been able to rapidly adapt to the ever-changing environment.

Intrepid: Taylor, thank you for taking the time to speak with us and address the current market. As you know, Common Thread Collective and Intrepid have mutual clients, so we've seen first-hand the quality of your work and the impact you can have on a company's sales growth. We are impressed with your company's ability to understand the DNA of brands, your creativity in the content that you deliver, and your out-of-the-box thinking when it comes to influencer partnerships. Insight into your experiences and thoughts over the past few weeks will make for a fascinating and worthwhile conversation. Let's start with, what trends are you seeing from your current clients in today's environment?

Taylor Holiday: Thank you for having me. I'm happy to share my insights with you. Common Thread Collective primarily works with companies focused on scaling their eCommerce revenue by providing guidance and resources to focus on business unit goals and data-backed creative planning. Over the past three weeks, our clients' key metrics have been staggering. Top-line revenue growth is up 16% just over the past week. But where we have seen the most growth has been in the media performance aspect of these businesses. We have analyzed last year's Facebook media performance from March 8 to April 7 compared to this year and revenue is up 60%, advertising spending is up 20%, cost per click is down 20%, and the click through rate is up 8%.¹ The bottom line is that big players have pulled money out of advertising media platforms, leading to prices declining substantially for smaller DTC companies, which have led to some of their best months in history.

"The bottom line is that big players have pulled money out of advertising media platforms, leading to prices declining substantially for smaller DTC companies, which have led to some of their best months in history."

Intrepid: Given the recession and rising unemployment rate, why is this trend so counter to the current macroeconomic environment?

Taylor Holiday: At the end of the day, the smaller, more agile companies are pivoting to take advantage of this new environment. The media performance market is dynamically priced, thus, there is a price at which every ad campaign works from a cost per mille (CPM) basis. With large players who are retail-driven having to pull out, DTC companies are being clever with their ad campaigns and product launches to capitalize on shifted demand. For instance, instead of a fashion apparel company pursuing

¹Source: Facebook. Note: No grocery, delivery, or other end markets are skewing this data, and no one large client makes up more than 5% of this data set.

fashion shirts for consumers looking to go out, these companies have pivoted to producing stylish masks. Another company makes fitness apparel for gyms, but this company partnered with several local gyms and has donated a portion of their proceeds to these gyms. Not only were they able to donate nearly \$200,000 to local gyms, but they are also having one of their best months in history. Further, a company that makes lighting products has gone full speed ahead, focusing their efforts on lighting for Zoom calls rather than production studios. Rather than just pulling out advertising money due to a decline in demand for the incumbent products, DTC brands are figuring out ways to remain relevant. Businesses are figuring out “how to message the moment” and create ways to generate impressive results. The environment we are living in right now is completely different than two weeks ago. The value proposition of your product is not the same as it was. The brands that embrace this now are winning big. The key is to ask how does my product work in the new confines of this new world? Businesses must figure out how to operate in this unique moment.

“The value proposition of your product is not the same as it was. The brands that embrace this now are winning big. The key is to ask how does my product work in the new confines of this new world?”

Intrepid: Have your clients made a significant push to connect with consumers and focus on brand messaging? How do your clients feel about using marketing strategies such as promotional events and influencers?

Taylor Holiday: We highly value connecting with consumers. When brands can be human and give on-going updates, this will drive revenue and long-term brand loyalty. The more a brand can communicate transparently and create a human element, the easier it becomes to build a longstanding connection with its consumers. If a business can step up and make an impact, such as doubling down on customer service call volume, consumers will feel appreciated. We advise our clients to speak to consumers in a way where they feel cared for. Messaging to the new reality and making consumers’ lives better in the confines of the new environment is key. If businesses are solving actual problems with promotions, there has not been backlash and consumers have been appreciative.

Regarding influencers, we ask ourselves: “Is the message authentic or genuine to the moment?”. At the moment, you cannot go to a studio, or do live production. Thus, we are relying on influencers that know how to generate content from their homes and leveraging those assets for us. Content creators are an incredibly important part. We must be more creative on using these influencers and even more careful about the messaging to make it more authentic. There is more risk because if the messaging feels out of touch, it can be negative. There is currently a void here which we are looking to fill with creative, at-home production.

Intrepid: Have you had any new clients approach you to get onboarded?

Taylor Holiday: I have had more calls with Fortune 500 companies in the past week than I had in the past year. Many have been dabbling with systems and parameters to get to DTC eventually and now are accelerating plans. However, several of these larger companies still only see DTC as a data play, and not actually as a significant potential driver of revenue, because it feels small. We disagree with this train-of-thought. One key metric we track is eCommerce versus retail penetration as a percentage of sales. Over the past year, eCommerce has resulted in approximately 11% of total sales in the U.S., but we are looking ahead to compare the U.S.’s future eCommerce market to China’s after the SARS outbreak. During SARS, 20% to 30% of China’s total

sales were eCommerce, and it never fully went back to the pre-outbreak levels. We can see the U.S. having a similar experience once our environment normalizes. As many experts predict total retail sales to be down in Q1'20, we will be looking at how much did eCommerce penetration increase. Large players will try to figure out how to ramp up eCommerce, but they are thinking about how to build roadmaps, policies, and processes, which can be cumbersome and time-consuming, while independent DTC brands can be launched much more swiftly. If you can make an organization make a significant shift into eCommerce, we think it will pay off.

“If you can make an organization make a significant shift into eCommerce, we think it will pay off.”

Intrepid: What’s another fascinating trend to watch?

Taylor Holiday: Search environments. Search engine optimization (SEO) and paid search as a channel work when there is a gap between high volume and low competition. The problem has been that in the normalized environment profits have been eaten away. There has been a fundamental shift in human behavior where there is a massive increase around certain key words driving arbitrage opportunities where brands get smart. For instance, the search around “Zoom Lighting” three weeks ago was basically zero. But now, this is massive. There is a significant number of niche examples including “homeschooling” and “home garage workouts.” There are massive traffic volume and real arbitrage that is happening today and companies are looking to take advantage of these shifting trends.

Intrepid: Taylor, we thank you for your valuable insight, and we are very excited to learn that so many of your clients are performing well in this environment.

For the readers, if you are looking to rethink your digital marketing strategy, you can contact Common Thread Collective at www.commonthreadco.com. If you are looking for insight into a capital transaction, whether it be raising capital or a partial or full sale of your business, free to reach out to us at 310.478.9000.

We believe that while the financial markets have taken a significant hit, the private markets are still active and looking to invest in exciting consumer product companies.

Thank you and stay healthy!



Lifestyle Brands Team



Marvin Padilla
Managing Director
mpadilla@intrepidib.com



Brian Levin
Director
blevin@intrepidib.com



Andrew Colmar
Vice President
acolmar@intrepidib.com

About Intrepid's Lifestyle Brands Practice

Intrepid's **Lifestyle Brands** practice combines decades of experience assisting businesses with a passion driven consumer brands across categories including apparel, accessories, footwear, and retail with expert execution in various transaction types, including capital raises, mergers, acquisitions and divestitures. We maintain deep relationships with strategic acquirers, private equity investors and leading executives active in the industry.

About Common Thread Collective

Common Thread Collective is a digital growth agency focused on helping eCommerce brands scale their online revenue. Our mission is to help entrepreneurs achieve their dreams and we emphasize a connection with the teams behind the businesses. Our approach is thoughtful and curated to meet each brand at the stage they are at in their journey and we are best equipped to help brands specifically in the direct-to-consumer CPG space.