

The Daily Dispatch

Weekly Special Feature

September 10, 2021

Surprising Learnings From Warby Parker And AllBirds IPO Filings

By: Jason Goldberg – Forbes (*Published on September 3, 2021*)



A Warby Parker store is seen in Brooklyn, New York. *Photo by: STRF/STAR MAX/IPx 2021 4/20/21*

Last week, two Direct-to-Consumer (DTC) darlings, Warby Parker and AllBirds filed their S-1 registrations with the SEC in preparation of making an initial public offering. The filings give significant new visibility into the performance of these private companies, and that performance reveals a lot about the state of the commerce industry.

Historically, the market has supported two distinct business models. Brands, such as P&G, which sell their products wholesale to retailers, and retailers, such as Kroger (KR -1.4%), who buy the goods from brands and resell them to consumers. In the last decade, DTC has emerged as the third model. Although not a new idea (producers selling their own goods to consumers, predates the wholesale model), DTC has gained significant popularity in the e-commerce era, with many new brands emerging that sell their own goods directly to consumers via e-commerce sites. In 2016, Andy Dunn, the founder of Bonobos coined the term “Digitally Native Vertical Brands” or DNVBs to describe the flood a new brands that were embracing this DTC model.

A cursory scan of the e-commerce trade press would have you believe this digital version of DTC is the most successful product innovation since sliced bread. The truth, as revealed by Warby Parker and AllBirds S-1 filings, is far more complicated.

Warby Parker, which in many ways is the poster child for DNVBs, generated \$393 million in sales in 2020, its biggest year of sales and still growing, with 33% net growth in the previous twelve months. Yet Warby Parker, like most other DNVBs has failed to generate a profit. The problem is customer acquisition costs. Most DNVBs experience their initial growth by relying on digital ads placed on Facebook and Google to drive shoppers to their website. Yet, as these companies scale, they require even more new customers in an increasingly competitive environment, which drives the costs of those digital ads up, and makes customer acquisition more expensive. Warby Parker has mitigated those customer acquisition costs by opening 145 of its own retail stores which effectively serve as revenue generating billboards for the brand. In fact some DNVBs including Casper and Harry’s have even partnered with retailers like Target (TGT -0.6%) and Walmart (WMT +0.5%) on a traditional wholesale basis to try and improve customer acquisition costs at scale.

Warby Parker reported a blended customer acquisition cost of \$27 for 2019 (the last non-pandemic year), which is quite reasonable for a business that generates \$72 in contribution profit per order. Daniel McCarthy, a Marketing Professor at the Goizueta Business School of Emory University, and a guru in customer value calculations, identified a significant wrinkle: Warby Parker uses a “novel” definition of customer acquisition costs, because they apply their costs against all active customers, and not just newly acquired ones. This means the costs to acquire new customers (traditionally the definition of CAC), is probably significantly higher.

After more than ten years of operations, Warby Parker,

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perhaps the best example of a DNVB, even with the advantage of 145 of its own stores, is still less than halfway to \$1B in annual sales or any profitability.



Pedestrians walk past an Allbirds Inc. store in San Francisco, California, U.S., on Wednesday, Feb. 17, 2021. The U.S. economy started 2021 with a bang as retail sales and factory output accelerated and expectations continue to build for another jolt of government stimulus, setting the stage for what could be the best year of economic growth in nearly four decades. *Photographer: David Paul Morris/Bloomberg* © 2021 BLOOMBERG FINANCE LP

Similarly, AllBirds reported \$219 million in 2020, its top year to date, and lost nearly \$26 million on those sales. AllBirds has also turned to opening stores, to help improve its customer acquisition costs. "We have just scratched the surface of our store potential, particularly in the United States, with 27 stores globally as of June 30, 2021," per the company's prospectus. "We are in the early phase of a ramp towards hundreds of potential locations in the future."

The take-away is that despite generating buzz and raising a lot of capital, these DVNB challengers are struggling to economically challenge the traditional wholesale and retail model. That is not to say that some DNVBs can't or won't be successful, but it's clear that simply being a DNVB is not a competitive advantage. P&G owns more than 22 brands that each sell more than \$1B annually. Target has launched 11 brands in the past two years that each sell over \$1B annually. It turns out that owning an existing relationship with customers (in the case of incumbent retailers), or strong customer awareness and distribution (in the case of

incumbent brands) are formidable advantages that DNVBs are struggling to overcome.

Source: Jason Goldberg (2021) "Surprising Learnings From Warby Parker And AllBirds IPO Filings" *Forbes*. Available at: <https://www.forbes.com/sites/jasongoldberg/2021/09/03/surprising-learnings-from-warby-parker-and-allbirds-ipo-filings/?sh=5a41a45b532a> (Accessed 9 September 2021)

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TODAY'S TOP NEWS

CNVRG to be included in FTSE global equity index

Converge ICT said in a disclosure to the stock exchange the company would be added to the Small Cap Index of the FTSE Global Equity Index Series following the global financial benchmark provider's semi-annual review. The index inclusion will take effect after the close of business on Sept. 17, 2021.

DITO Telecom to spend P4 billion in undersea cable

DITO Telecommunity Corp. is investing P4 billion in a submarine cable to expand capacity as it prepares to roll out fixed broadband services using 5G wireless technology by the fourth quarter this year. DITO has 3,096 4G cell towers and 604 5G towers.

Trade gap declines in July

THE country's trade gap declined in July as the value of imports exceeded exports, according to the preliminary data released by the Philippine Statistics Authority (PSA) on Thursday. Inbound shipments increased by 24 percent year-on-year to \$9.7 billion, while outbound ones expanded by 12.7 percent to \$6.4 billion.

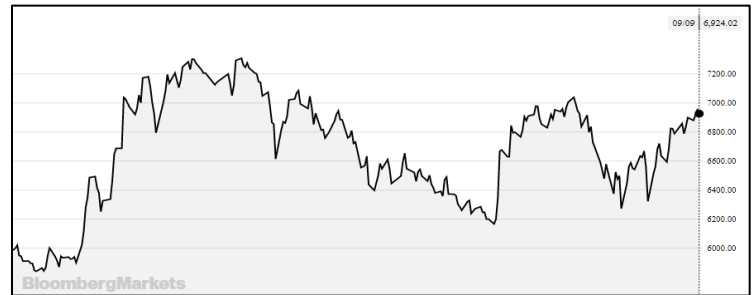
Foreign investment pledges up 45.5% in Q2

GOVERNMENT-APPROVED foreign investment pledges surged by 45.5 percent in the second quarter of the year, the Philippine Statistics Authority (PSA) said. The PSA, in a report on Thursday, said foreign investment (FI) pledges approved during the period reached P22.50 billion from P15.46 billion in the same period a year ago.

ACEN to invest fresh capital in RE projects

AC Energy Corp. (ACEN), the energy arm of Ayala Corp., has raised nearly \$1 billion in fresh capital this year, which it can use to achieve its renewables capacity target of 5,000 megawatts (MW) by 2025.

Philippine Stock Market Update



Previous Close:

6,924.02

1 Yr Return:

19.90%

Open:

6,914.97

YTD Return:

-2.60%

52-Week Range:

5,695.78 - 7,432.40

Source:

Bloomberg

Foreign Exchange

As of Sept. 9, 2021

US Dollar	Philippine Peso
1	49.92

BVAL Reference Rates

As of Sept. 9, 2021

Tenor	Rate
1Y	1.637
3Y	2.268
5Y	2.925
7Y	3.581
10Y	4.137
20Y	4.989

Daily Quote

“Nothing will work unless you do.”

--Maya Angelou

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MORE LOCAL NEWS

2 local firms in Forbes' under billion-dollar list

ONLY two Philippine companies — Century Pacific Food, Inc. (CNPF) and RFM Corp. — were included in Forbes Asia's roster of top-performing publicly listed small and mid-cap firms in the Asia-Pacific region this year.

Del Monte Pacific swings to profit with \$18 million

LISTED Del Monte Pacific Ltd. reported an \$18.3-million profit for the first quarter of its 2022 fiscal year, a reversal of the \$3.2-million loss incurred in the same period last year. The company said its sales for its first quarter ending July went up by 12% year on year to \$462.1 million from \$413.1 million.

Banks say loss buffer can cover PAL's woes

CREDITOR banks of Philippine Airlines, Inc. (PAL) are confident they are well-placed to absorb the impact of the flagship carrier's bankruptcy filing, citing their ample loan loss provisions. BDO Unibank, Inc. said the bank, together with the majority of the creditors, are supportive of PAL's restructuring plan.

MPIC forecasts cleaner aviation fuel to catch on

THE Metro Pacific group is looking to produce sustainable aviation fuel or SAF, an official of the Metro Pacific Investments Corp. (MPIC) said on Thursday, with the expectation that "most aircraft" will be required to use cleaner fuel in the future.

Ayala Corp. creates logistics unit

AYALA Corp. said on Thursday that the Securities and Exchange Commission (SEC) has given the go signal to create a unit dedicated to the logistics sector. In a disclosure to the exchange, the company said the SEC has approved the articles of incorporation and bylaws of AC Logistics Holdings Corp. on Sept. 6.

Chinabank gives away P132-M in shares to employees

Chinabank [CHIB 24.50 0.82%] distributed 5,388,400 shares to 8,321 employees as a way of celebrating its 100th anniversary, which actually happened in 2020. The shares were fully gifted to each employee based on the number of years of service.

Quick notes on Filinvest REIT, MREIT

FILRT announced yesterday that today would be the final day of potential activity for its stability fund. MB readers will remember that the fund was created with a lifespan of about 163 million shares or 30 calendar days, and it appears as though the fund will reach its expiry date without having done any real heavy lifting whatsoever.

AC Motors eyes P50b in annual revenue by 2025

AC Motors Automotive Group, a wholly-owned subsidiary of Ayala Group, plans to expand its annual revenue to P50 billion by 2025, with a net revenue projection of P1.3 billion, as it aims to become a pioneer in energy vehicles in the Philippines.

School closures to cost economy P11T in 40 years

The continued closure of schools in the Philippines will not only have long-term scars on students but will also cost the economy some P11 trillion over the next four decades.

Gov't aid for PAL will depend on Chapter 11 outcome

The government will wait for the outcome of Philippine Airlines' bankruptcy filing in New York before deciding whether to use taxpayers' money to help the loss-making national carrier raise funds for its post-restructuring needs.

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TODAY'S TOP ASIAN NEWS

Samudera riding wave of soaring shipping rates

Over the past year, global shipping rates have hit multi-year highs, driven by a commodity boom, port bottlenecks, shortage of containers and an industry capacity crunch. The blockage of the Suez Canal in March following the grounding of giant container ship Ever Given simply brought the whole issue into sharper focus.

Tencent leads loss as China's crackdown expands

Tencent Holdings and Netease shed more than US\$60 billion (S\$80.6 billion) of value as investor fears grow that Chinese regulators are preparing to tighten their grip dramatically on the world's largest gaming industry.

Advance.AI raises \$200m led by Warburg Pincus

[SINGAPORE] Singapore-headquartered tech startup Advance.AI is raising about US\$200 million in a funding round that will propel it into a small group of South-east Asia unicorns - unlisted companies valued at US\$1 billion or more, two sources familiar with the matter said.

Nio's Hong Kong listing faces delay into next year

[HONG KONG] Chinese electric-car maker Nio Inc may delay its planned Hong Kong listing to next year, according to people familiar with the matter.

Japan Airlines looking to raise 300b yen

JAPAN Airlines Co Ltd (JAL) is looking to raise 300 billion yen (S\$3.67 billion) by the end of the month to ride out anticipated funding challenges amid a continued slump in air traffic, two sources familiar with the matter said on Thursday.

TODAY'S TOP GLOBAL NEWS

Bill Gates' firm to take control of Four Seasons

Bill Gates' Cascade Investment is taking control of Four Seasons Hotels and Resorts by buying about half of Saudi Arabian Prince Alwaleed bin Talal's stake for US\$2.21 billion (S\$2.98 billion), the hotel operator said on Wednesday (Sept 8).

G7 seeks more progress on global corp. tax reform

Finance ministers from the Group of Seven rich nations said on Thursday (Sept 9) they had to make more headway on the small print of a reform of global corporate tax rules in time for a summit of world leaders in October.

GM extends shutdown of Bolt EV production

General Motors is extending downtime at a Michigan plant that produces its Chevrolet Bolt EV as it works with battery supplier LG Chem to fix manufacturing defects that cause some cars to catch fire, leading to a massive recall to fix the problem.

Facebook and Ray-Ban debut 'smart' shades

[SAN FRANCISCO] Facebook and iconic eyewear brand Ray-Ban on Thursday launched their new smart glasses, the latest effort in a tricky, niche market but which the social media giant sees as a step toward its future.

Ford to exit car manufacturing in India

[MUMBAI] Ford will stop manufacturing cars in India and expects to record a US\$2 billion restructuring charge after failing to find a "sustainable path" forward, the American auto giant said on Thursday.