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DIRECT BRANDS 2020

DIRECT BRANDS

EXCLUSIVE CONSUMER & INDUSTRY RESEARCH OF THE AUSTRALIAN DIRECT BRANDS MARKET

APRIL 2020

FORWARD

The IAB Australia brings together over 150 members to help build sustainable and diverse investment in digital advertising. Our role includes understanding the digital landscape and highlighting its opportunities to the broader market.

Part of the changing digital landscape is the emergence of direct to consumer brands disrupting a variety of categories. Digital sits firmly at the heart of the way these brands communicate, deliver and even make their products. They are born and thrive online.

Understanding sustainable direct brands offers important lessons for the wider retail and advertising industries. IAB member companies also provide opportunities to direct brands that can assist with their next stage of growth.

Fieldwork for the research study we have undertaken to understand Australians behavior with direct brands and direct brand founder stories was conducted in February 2020. More recently the global COVID-19 pandemic is causing significant social and economic change. Insights on successful online retailing are timelier than ever during this period of physical isolation where consumers are visiting bricks and mortar stores much less.

The IAB are proud to present this study of Direct Brands in Australia, in partnership with research company Pollinate and our strategic partners Facebook and Snap. I'd also like to sincerely thank the direct brand founders and marketers who have been very generous with their time and open in providing insight into their exciting businesses.

Gai Le Roy
CEO

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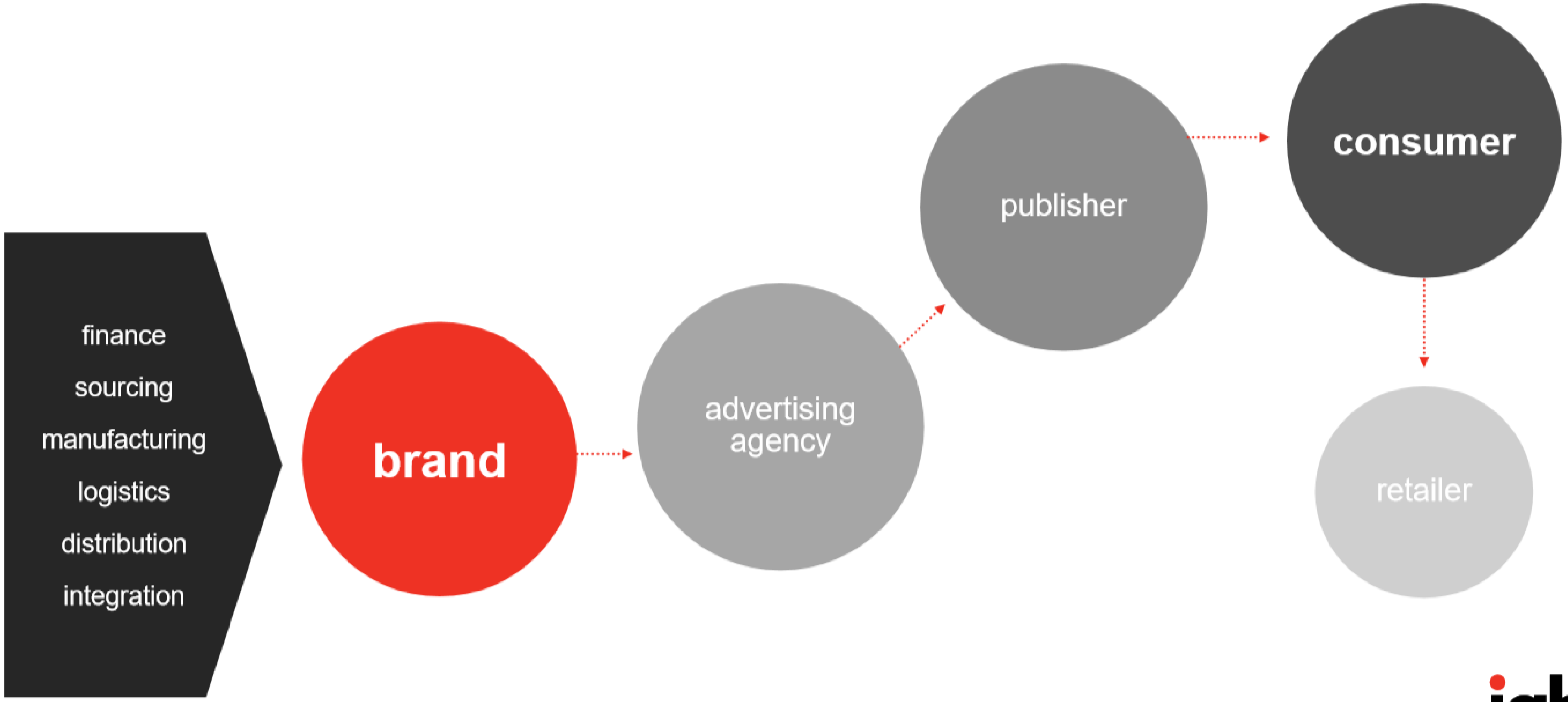
DIRECT BRANDS OVERVIEW

DIRECT BRANDS ARE REDEFINING WHAT IT MEANS TO BE A CUSTOMER-CENTRIC, DATA-DRIVEN BUSINESS

DIRECT BRANDS ARE CHARACTERISED BY:

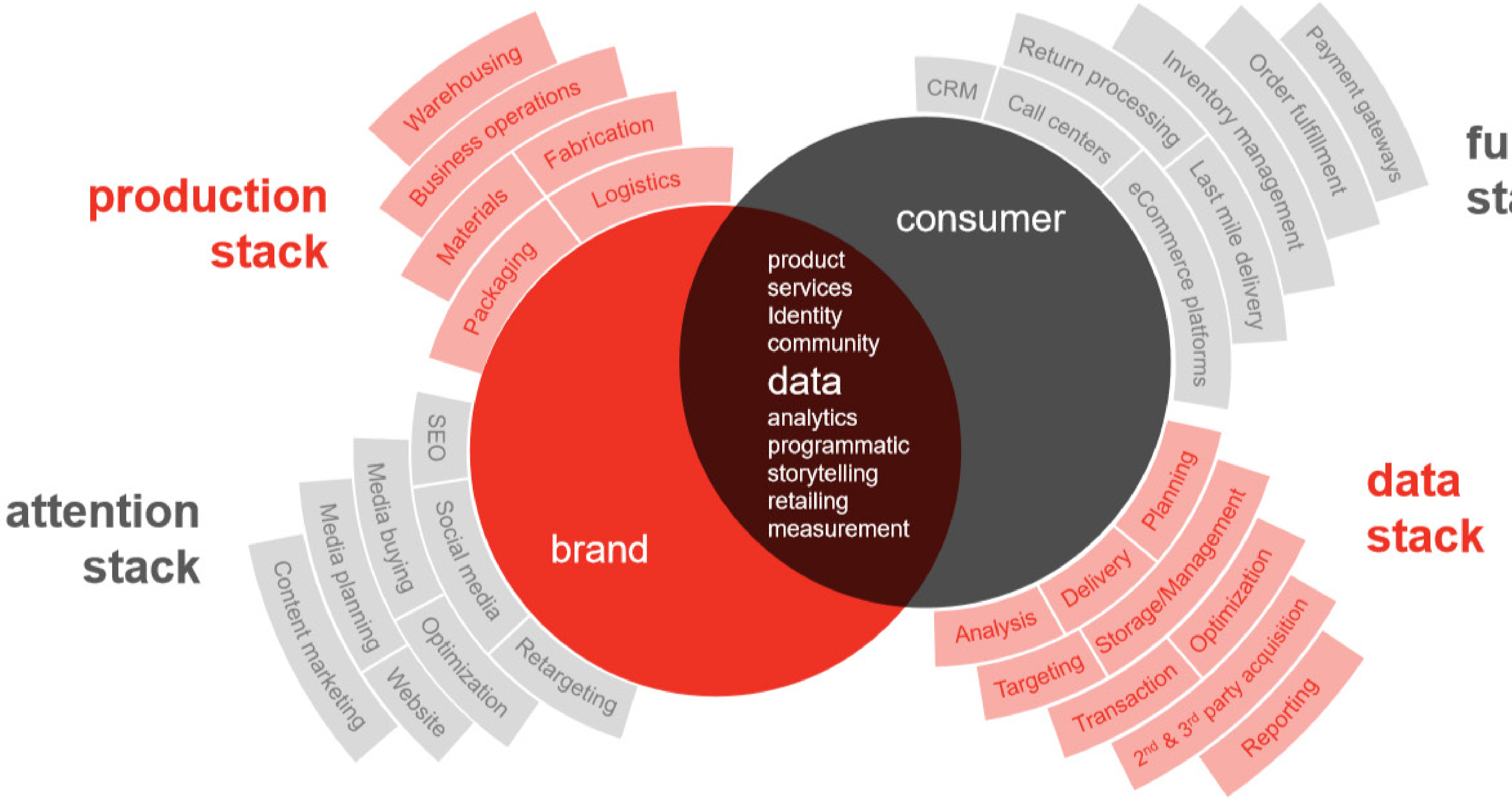
- selling goods entirely or primarily through their owned-and-operated digital channels
- creating value by tapping into low-barrier-to-entry, capital-flexible, leased or rented supply chains
- bypassing established routes to market to offer convenient, high-quality, personalised products
- using first-party data relationships to fuel all significant functions of their businesses

THE INDIRECT BRAND ECONOMY



Source; IAB US Direct Brands Report, How to build a 21st Century Brand 2019 - 2020

THE DIRECT BRAND ECONOMY



Source; IAB US Direct Brands Report, How to build a 21st Century Brand 2019 - 2020

DIRECT BRANDS FOLLOW A NEW PURCHASE FUNNEL, TURNING CONSUMER ACQUISITION COST INTO LIFETIME VALUE

CAC

- Instagram + Facebook
- Podcasting
- OTT Video
- Platforms
- Programmatic Display

Experiences

- Content
- Mission
- Omnichannel Retail
- Customer Service
- Community

Speed

- Product-to-Market
- Customer Service
- Direct Delivery

Service

- Discovery
- Direct Delivery
- Problem-solving
- Customization

Data

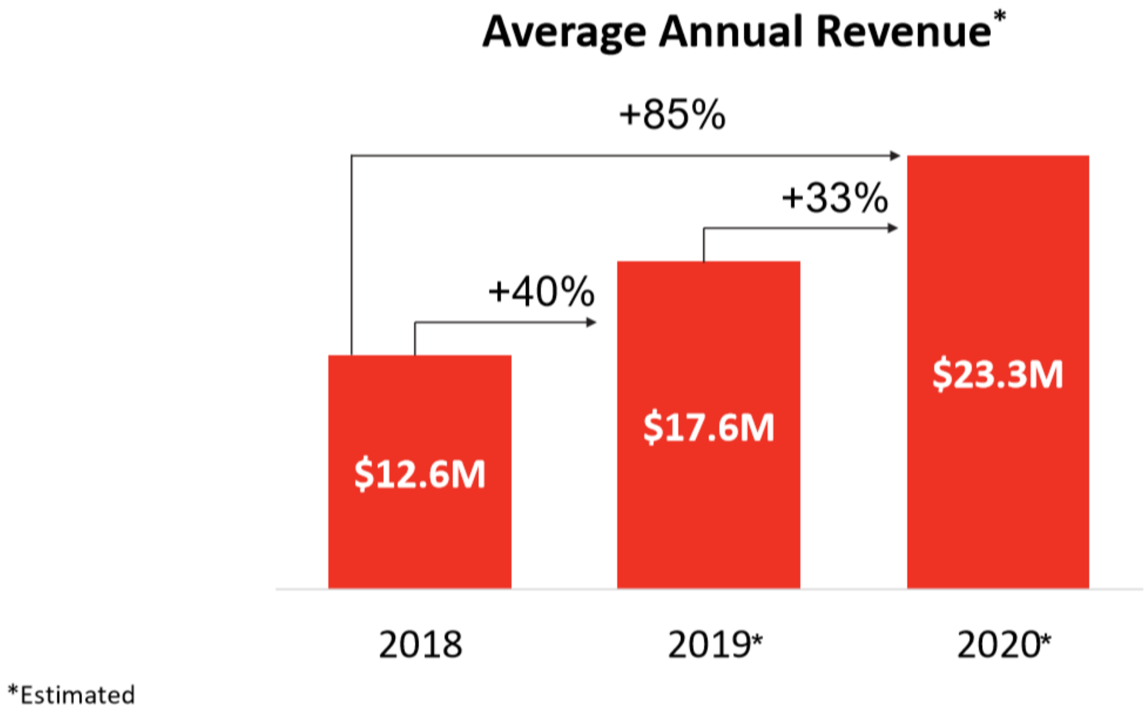
- Product Usage
- Pricing

Lifetime Value

Source; IAB US Direct Brands Report, How to build a 21st Century Brand 2019 - 2020

IN THE US DIRECT BRAND REVENUES ARE GROWING

US direct-to-consumer ecommerce sales will grow 24.3% to $17.75 billion this year, this represents 2.6% of the total US ecommerce market.*



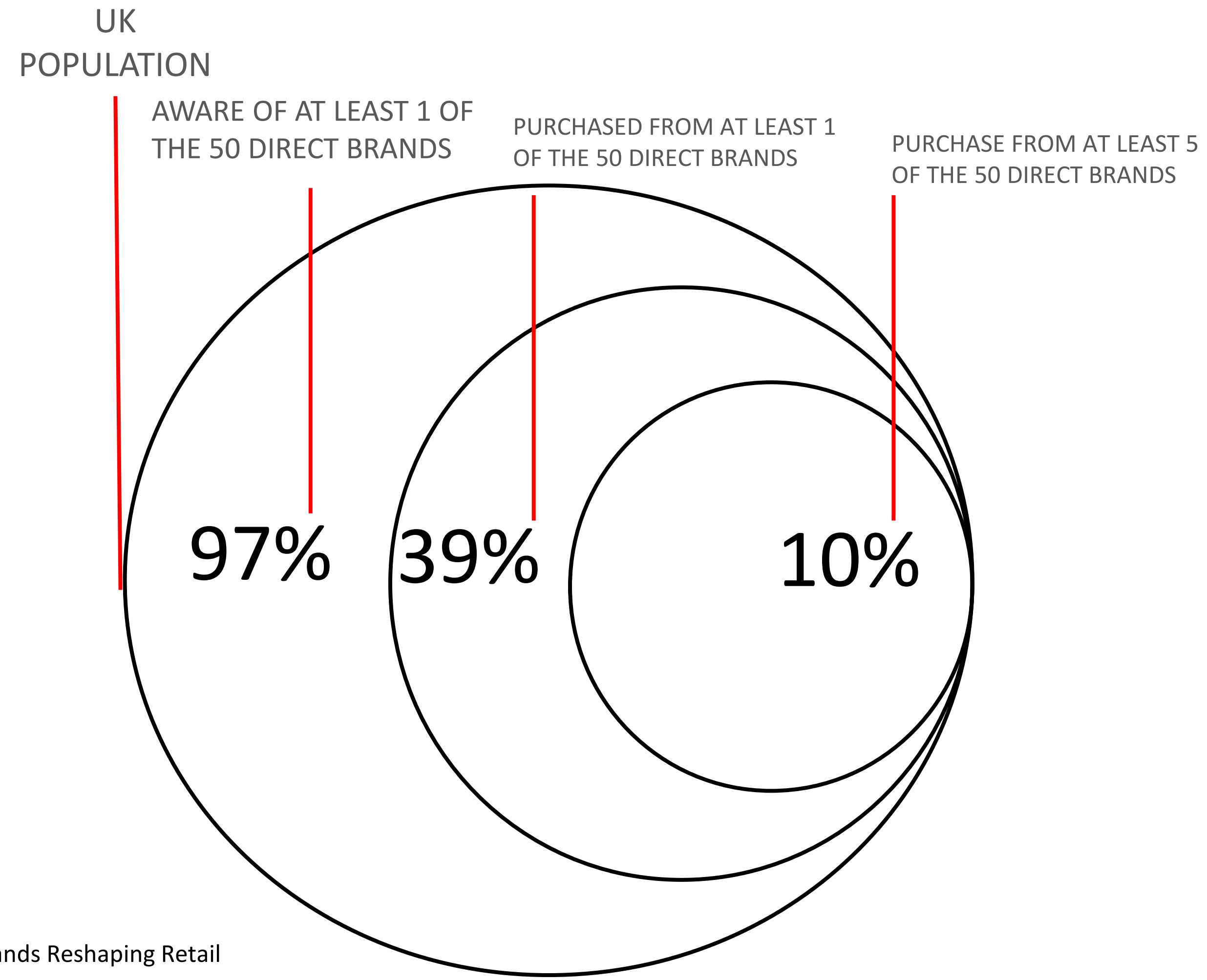
90% profitable

47% gross margin

~ 3 years to achieve profitability

Sources; IAB US Disruptor Brands: Founders Benchmark Study 2019 Base: <15, n=203 Q: What is your approximate annual sales revenue for the following years?
* eMarketer

IN THE UK, 2 IN 5 HAVE PURCHASED FROM A DIRECT BRAND



Sources; IAB UK Born Online, Unwrapping the Direct to Consumer Brands Reshaping Retail

THE IAB US FOUND THE GOAL IS A HEALTHY BUSINESS .. FOR THE LONG-TERM

TOP 3 BUSINESS KPI'S FOR DIRECT BRANDS

#1 Profitability

#2 Customer satisfaction

#3 New customers

LONG-TERM BUSINESS GOALS FOR DIRECT BRANDS

#1 Expand globally

#2 Establish a new category

#3 Open a brick & mortar store

Source; IAB US Disruptor Brands: Founders Benchmark Study 2019
Base: <15, n=203 Q: Which overall business KPIs matter most to you?

DIRECT BRANDS KNOW PAID MEDIA DRIVES DISRUPTION

98%

Believe they must invest in PAID media

Source; IAB US Disruptor Brands: Founders Benchmark Study 2019
Base: Rely or would rely solely on earned media, n=298 Please consider your Owned and Earned Media. Do you now or have you ever relied only on Earned Media (i.e. no investment in PAID advertising campaigns)? You indicated that you have relied or would consider relying solely on Owned and Earned Media. Please choose the statement which best reflects your expectations.

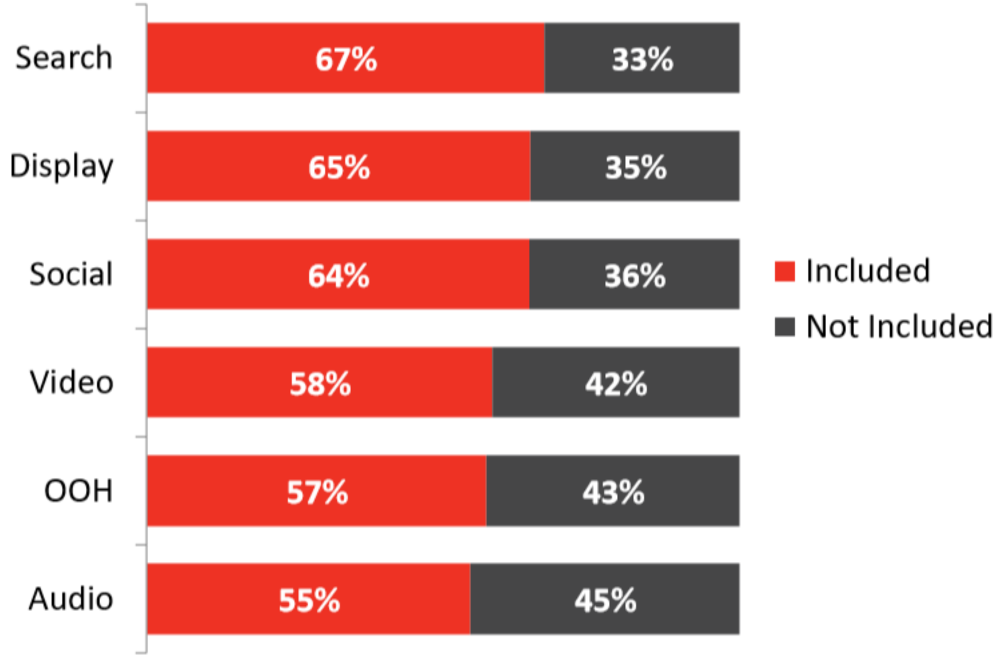
DIRECT BRANDS LAUNCH ON SOCIAL BUT GROW BY LEVERAGING ALL MEDIA

62%

INVESTED IN SOCIAL AT LAUNCH

(Facebook, YouTube, Instagram, Twitter, LinkedIn, Reddit, Messenger, Snapchat, Whatsapp)

% OF DIRECT BRANDS INTENDING TO BUY PAID MEDIA BY CHANNEL



Source; IAB US Disruptor Brands: Founders Benchmark Study 2019
Base: Total, n=330 Q - When you first launched your Direct to Consumer (DTC) brand, what percentage, if any, of your marketing/advertising budget was invested in Social Media?
Q - Please help us understand the level of intent your DTC brand has for buying/leveraging the following ONLINE PAID media platforms/ad types.

SOME TRADITIONAL BRANDS ARE ADAPTING TO THE DIRECT BRAND MODEL, OR ACQUIRING THEIR WAY IN

NIKE

Expects 30% of its sales to come from DTC online sales in 2023

P&G

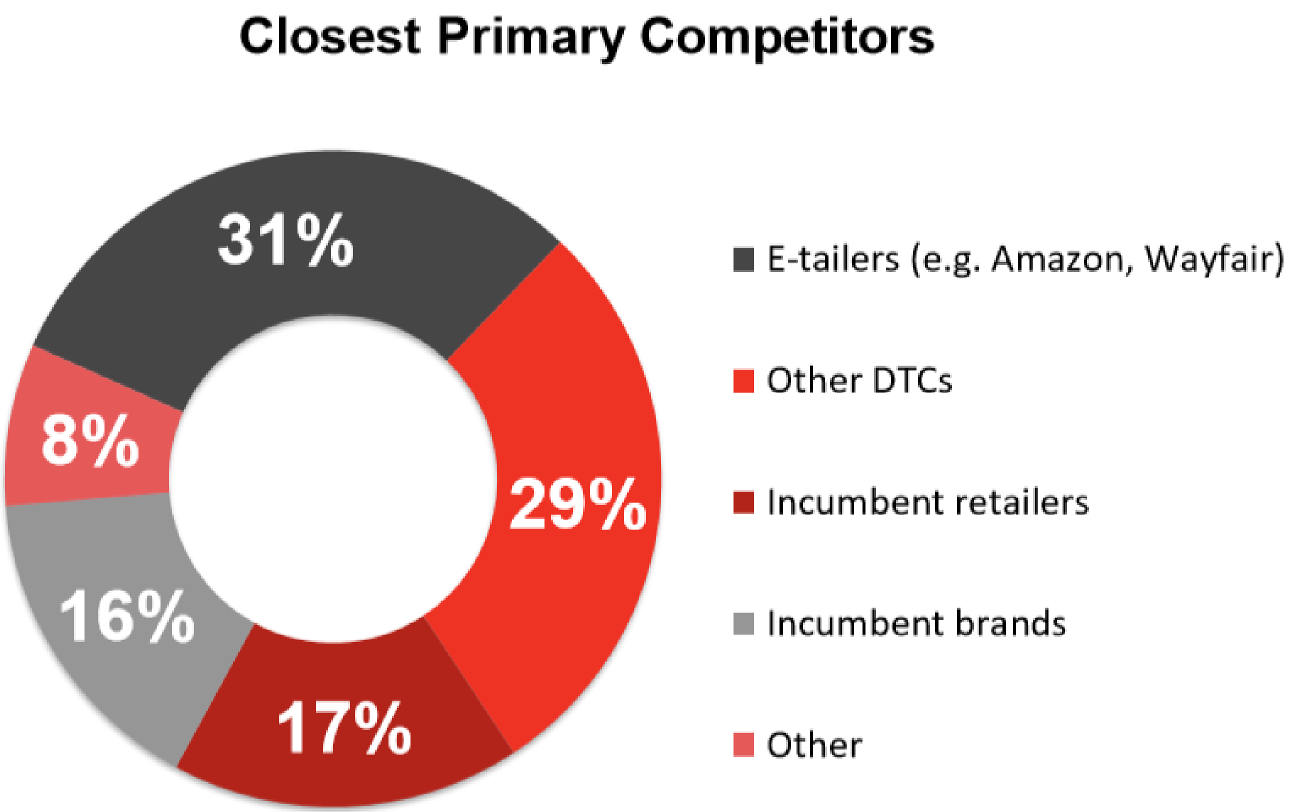
Freshens Grooming Segment with Billie Acquisition

LOREAL

Launches a personalized direct-to-consumer hair colour brand straight out of the companies tech incubator.

Sources; Analyzing Nike’s Distribution Channels and Retail Strategy; Proctor and Gamble is looking to add more direct-to-consumer brands to its roster; Loreal Debuts a personalised direct-to-consumer hair colour brand

ONLY A THIRD OF DIRECT BRANDS SEE INCUMBENT BRANDS/RETAILERS AS THEIR PRIMARY COMPETITOR



Source; IAB US Disruptor Brands: Founders Benchmark Study 2019
Base: <15, n=203 Q: Which ONE, if any, of the following do you consider your company's closest primary competitors?

THERE ARE SOME CHALLENGES FOR DIRECT BRANDS

- Increasing acquisition costs
- Finding new audiences
- Balancing customer acquisition cost with long-term brand value
- Reliance on earned media
- More competition
- Personalising and tailoring fit for purpose creative
- Privacy compliance
- Post cookie-world measurement
- Choosing the right funding
- Hiring the right people

Source; IAB US Disruptor Brands: Founders Benchmark Study 2019, IAB US Direct Brands: Media & Acquisition Study 2019-2020

UNDERSTANDING THE DIRECT BRAND MARKET IN AUSTRALIA

THE AUSTRALIAN ONLINE RETAIL MARKET IS GROWING BUT LESS DEVELOPED THAN OVERSEAS MARKETS

CY 2019 estimates:

UK
9% YoY growth
22% of total retail (forecast 27% by 2023)

US
14% YoY growth
11% of total retail (forecast 16% by 2023)

Australians spent $30.53b on online retail in CY 2019

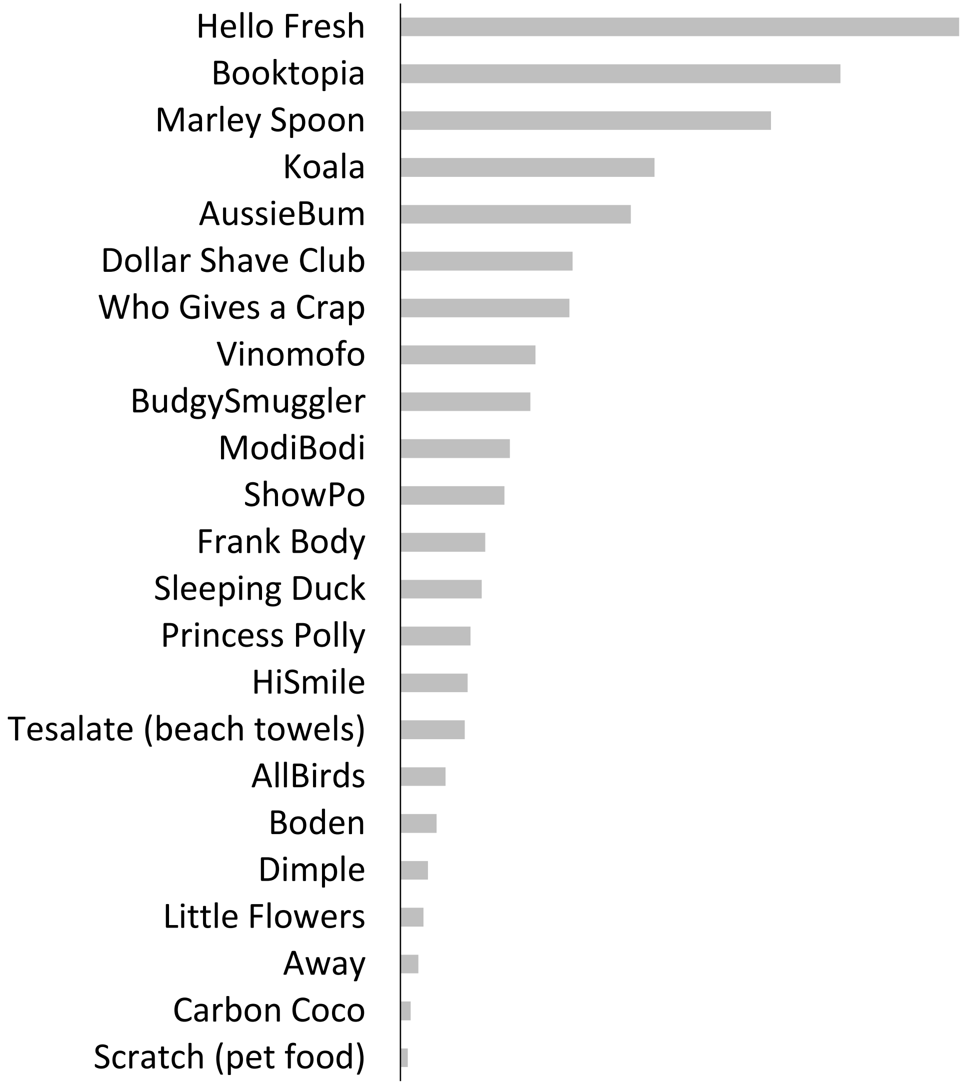
9% of total retail trade

Outpacing traditional retail at 10% growth year on year

Sources; eMarketer UK December 2019, eMarketer US May 2019, Australia NAB Online Retail Sales Index January 2020

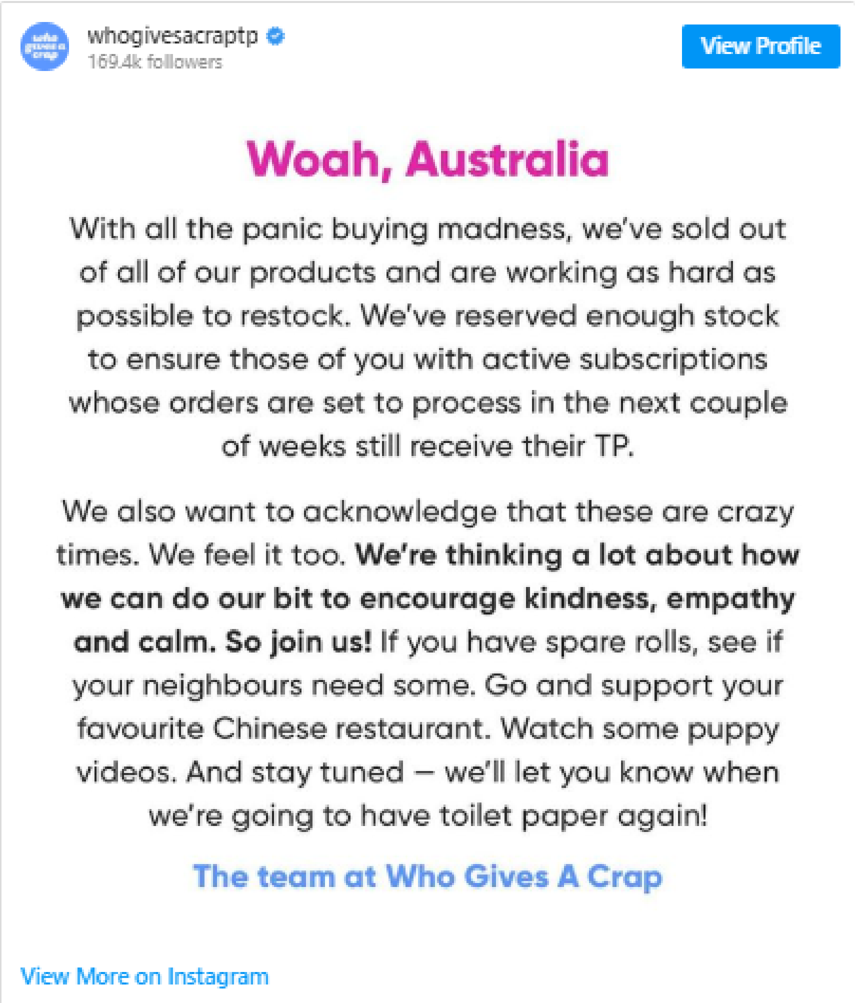
DIRECT BRANDS ARE EMERGING IN AUSTRALIA

SOME OF THE DIRECT BRANDS AUSTRALIANS ARE FAMILIAR WITH …



Source IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - Which of these brands have you heard of before today? Base n=1000

WHAT’S HAPPENED SINCE OUR RESEARCH …


whogivesacraptp
169.4k followers
View Profile

Woah, Australia

With all the panic buying madness, we’ve sold out of all of our products and are working as hard as possible to restock. We’ve reserved enough stock to ensure those of you with active subscriptions whose orders are set to process in the next couple of weeks still receive their TP.

We also want to acknowledge that these are crazy times. We feel it too. **We’re thinking a lot about how we can do our bit to encourage kindness, empathy and calm. So join us!** If you have spare rolls, see if your neighbours need some. Go and support your favourite Chinese restaurant. Watch some puppy videos. And stay tuned – we’ll let you know when we’re going to have toilet paper again!

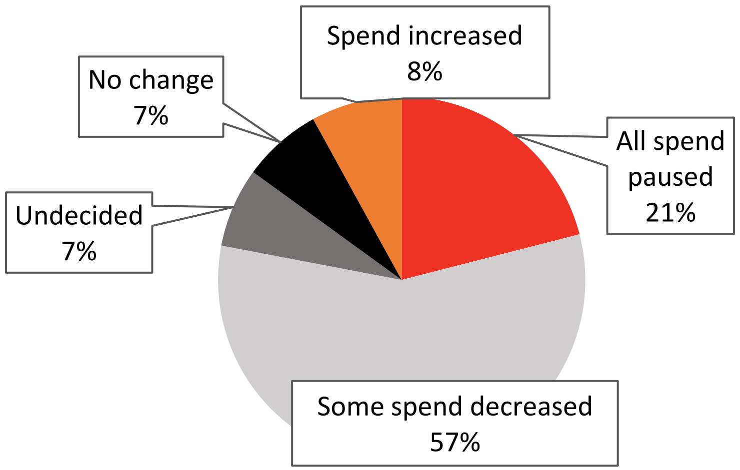
The team at Who Gives A Crap

View More on Instagram

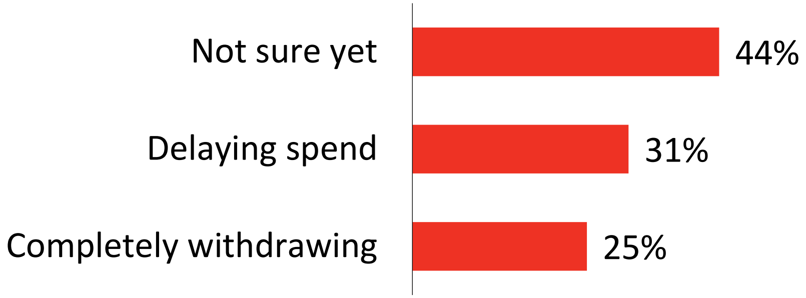
https://www.smartcompany.com.au/industries/retail/who-gives-a-crap-sales-toilet-paper-stockpiling/

COVID-19 IMPACT ON AUSTRALIAN DIGITAL ADVERTISING SPEND

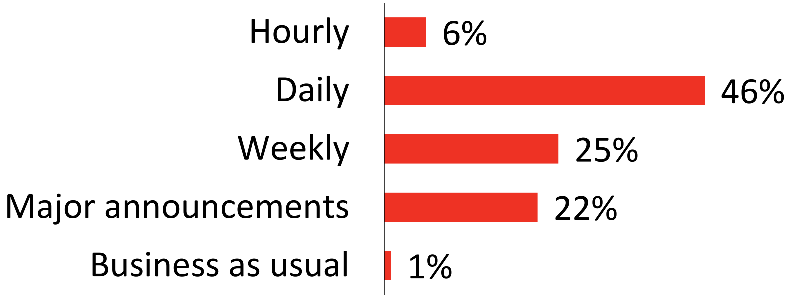
COVID-19 Impact on Digital Ad Spend



Actions for Those Decreasing Spend



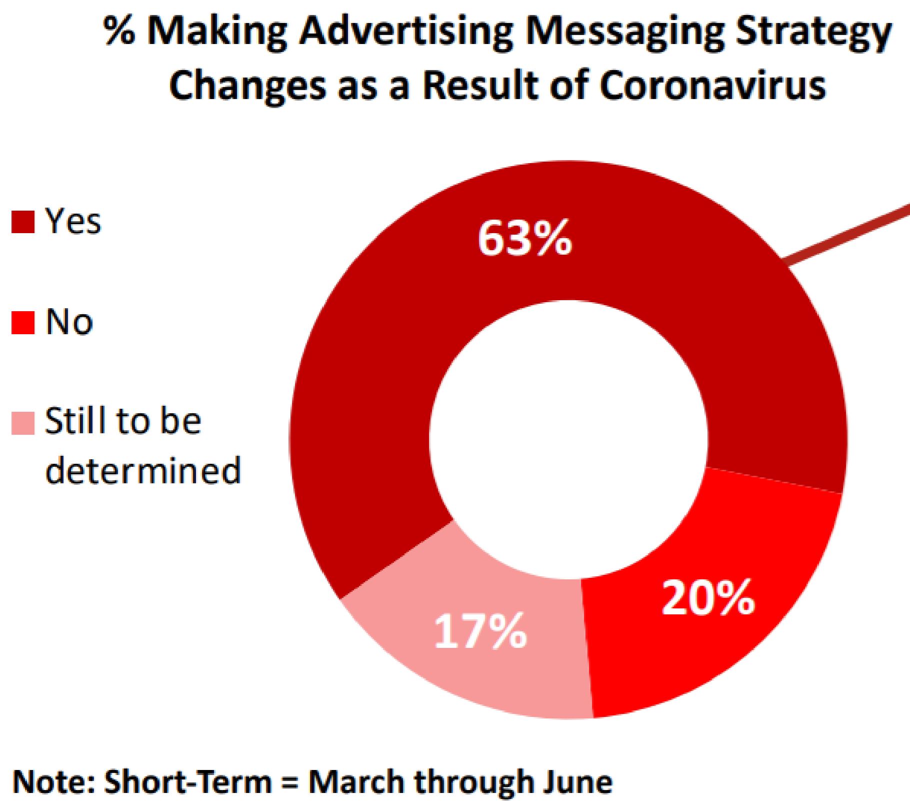
Regularity of Activity & Strategy Reviews

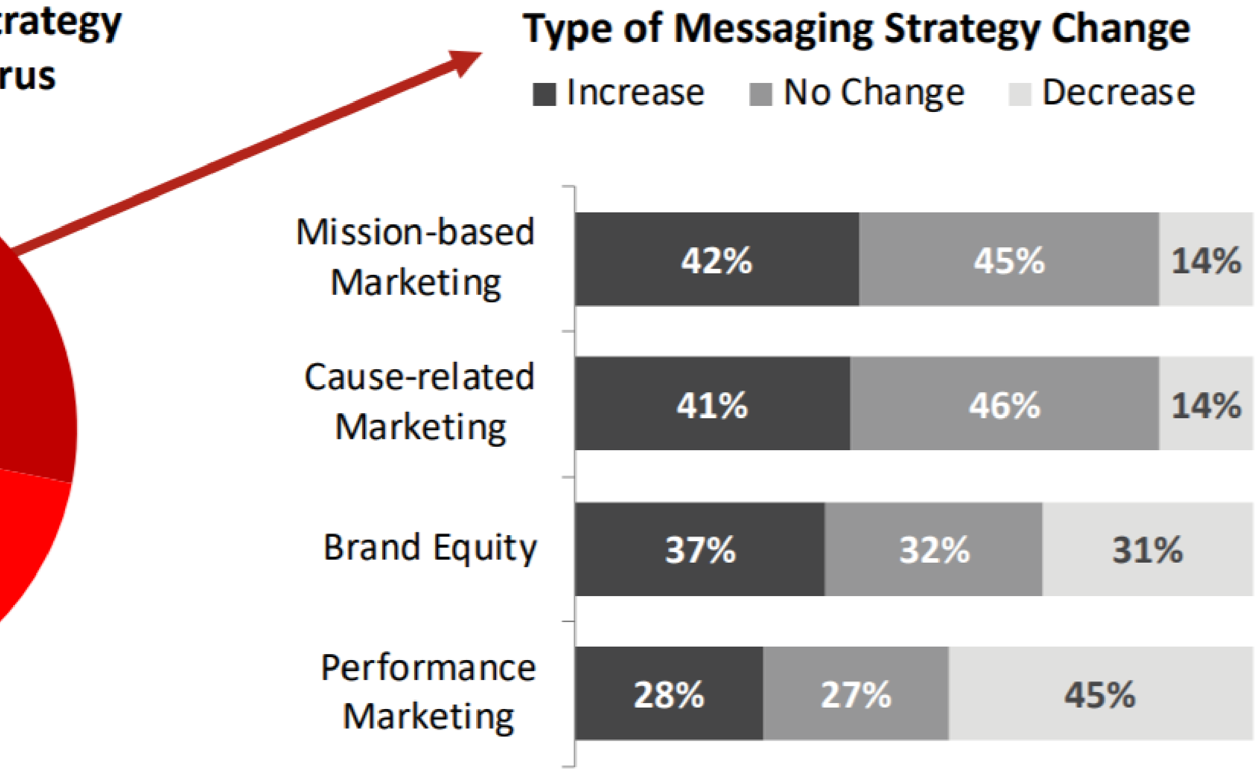


Type of Spend Impacted	
Brand & performance equally	44%
Primarily on performance	20%
Primarily on brand	11%
Only on performance	6%
Only on brand	4%
No change or increase in spend	15%

Source; IAB Australia Industry Market Pulse – COVID 19 Ad Impact – fieldwork 25th March – 6th April 2020
n = 78, media agency executives (on behalf of individual clients) & senior marketers

IAB US REPORTS MESSAGING STRATEGY IS SHIFTING FROM PERFORMANCE TO MISSION AND CAUSE MARKETING





Source; IAB US Coronavirus Ad Spend Impact: Buy-side March 2020
Base: n=390 Q: Are you making any short-term advertising spend changes as a result of Coronavirus? (Note: short-term = March through June)

IAB AUSTRALIA IN PARTNERSHIP WITH POLLINATE HAVE UNDERAKEN RESEARCH ON THE AUSTRALIAN DIRECT BRANDS MARKET

RESEARCH APPROACH:

QUANTITATIVE CONSUMER SURVEY

15 minute survey with n=1000 Australians who have spent with a direct brand

FOUNDER INTERVIEWS

10 x 1-hour interviews with direct brand founders/ CEOs

AREAS OF EXPLORATION

1 What are 'direct brands'?

2 What sets direct brands apart?

3 Who is the direct brand shopper?

4 How do people shop for direct brands?

5 Talking to direct brand customers

6 Once they're in, they're in!

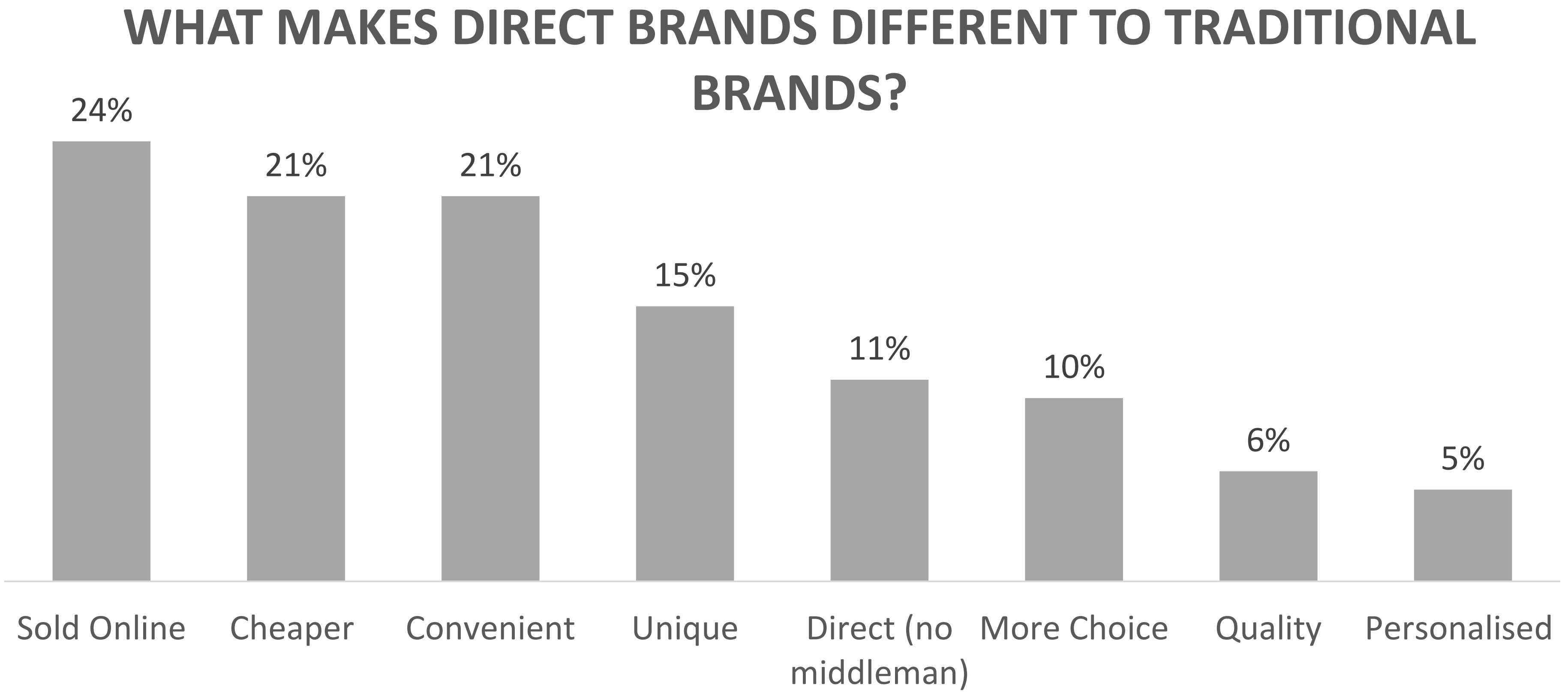
WHAT ARE DIRECT BRANDS?

DIRECT BRANDS ARE ABOUT MORE THAN JUST SELLING DIRECTLY TO CUSTOMERS

DIRECT BRANDS CAN BE SEEN THROUGH MULTIPLE LENSES ...

- DISRUPTIVE
- SUBJECT MATTER EXPERTS
- STRONG FOUNDER'S STORY
- CUSTOMER CENTRIC
- ITERATIVE BUSINESS MODEL
- DATA DRIVEN

CONSUMERS SEE ONLINE, CHEAPER AND MORE CONVENIENT BRANDS



Source IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - What makes direct to consumer brands different to traditional brands/shops? Coded OE%

DIRECT BRAND FOUNDERS SEE THEMSELVES AS DISRUPTIVE, NEW THINKERS

"I have always had this mentality that I wasn't going to do the 'normal' thing and go out and get a salaried job.. I mean I told my dad when I was ten that I was going to own my own business"

Warwick Levy – Founder, LonelyKidsClub

"We needed to find a way to validate our market at the lowest possible investment of time and money, which turned out to be a 24 hour hackathon on the beach in East Java".

Melanie McVean– Co-Founder, NoPong

"This isn't my first business – I am always looking for new, better ways to do things. I guess I am restless and love the creative process of starting something new."

Shaun Polovin – Director, Dimple

"The next frontier of business"

Justin Gaggino – 2IC, HiSmile

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

WHAT SETS DIRECT BRANDS APART?

VALUE ALIGNMENT, A NIMBLE BUSINESS MODEL AND A MORE RELEVANT BRAND ARE WHAT SET DIRECT BRANDS APART

DIRECT BRAND SHOPPERS' PERSONAL VALUES ALIGN WITH THE PERCEIVED VALUES OF DIRECT BRANDS

PERSONAL VALUES
(% most important in life)

Security	67%
Benevolence	64%
Self Direction	54%
Universalism	53%
Hedonism	38%
Achievement	36%
Conformity	21%
Power	14%
Stimulation	14%
Tradition	14%

DIRECT BRAND VALUES
(% best describes direct brand)

Self Direction	46%
Achievement	43%
Benevolence	33%
Hedonism	28%
Universalism	24%
Security	19%
Stimulation	16%
Power	11%
Tradition	7%
Conformity	4%

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - Which of these are most important to you in your life right now? Which words best describe the brand Base n=1000

THE BRAND AND FOUNDER STORY CARRIES WEIGHT, LIKELY BECAUSE IT RESONATES WITH SHOPPERS OWN VALUES

56%

I trust a brand more if I know the story behind the brand

vs 47% non-Direct Brand shopper

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - Thinking about when you shop, how much do you agree or disagree with the following? Base n=1000-1375

ETHICAL & SUSTAINABLE PROPOSITIONS RESONATE MORE STRONGLY WITH DIRECT BRAND SHOPPERS

Pollinate

iab. australia

58%

I prefer to buy from brands that I know are sustainable

vs 50% non-Direct Brand shopper

57%

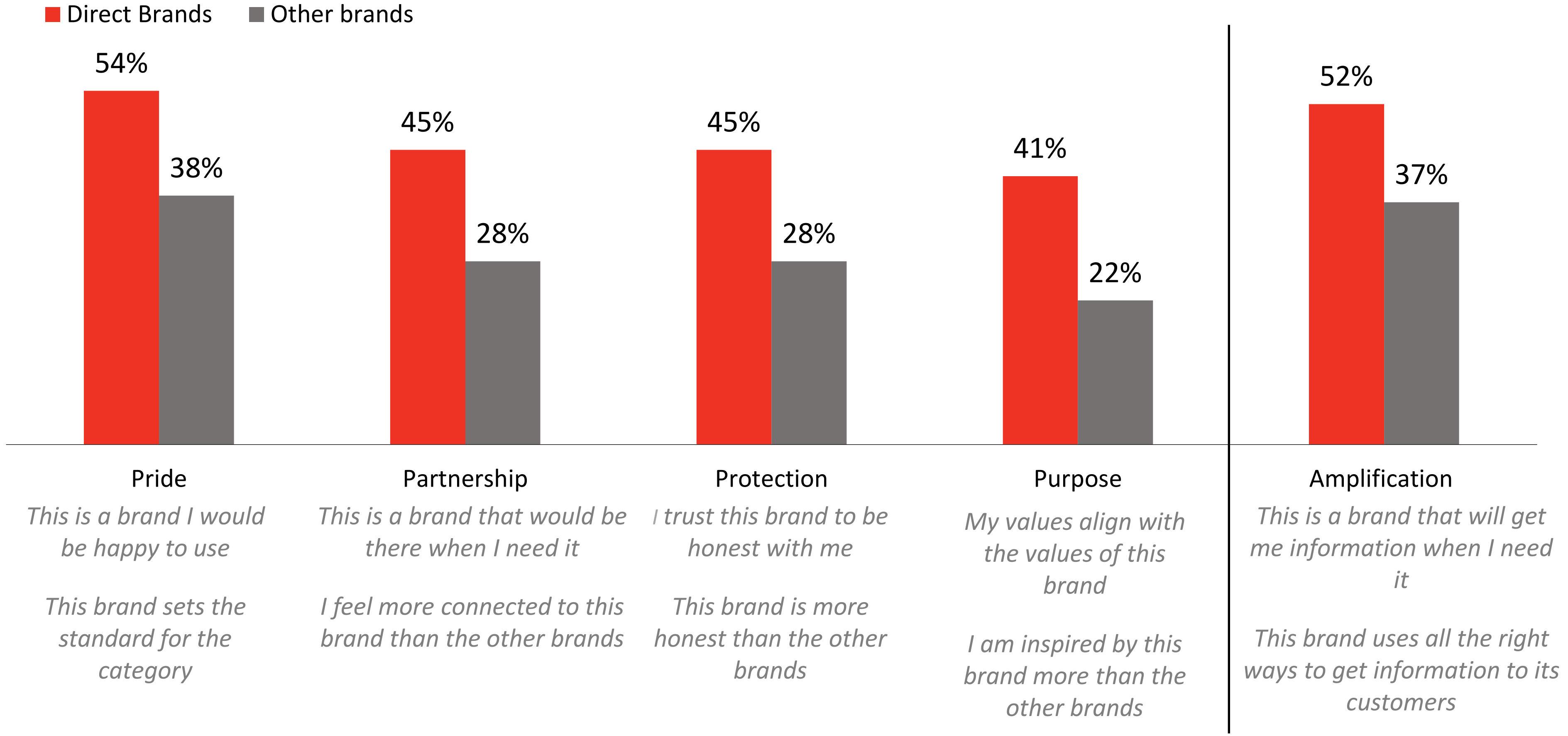
Purchasing from ethical brands is important to me

vs 48% non-Direct Brand shopper

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Thinking about when you shop, how much do you agree or disagree with the following? Base n= 1000-1375

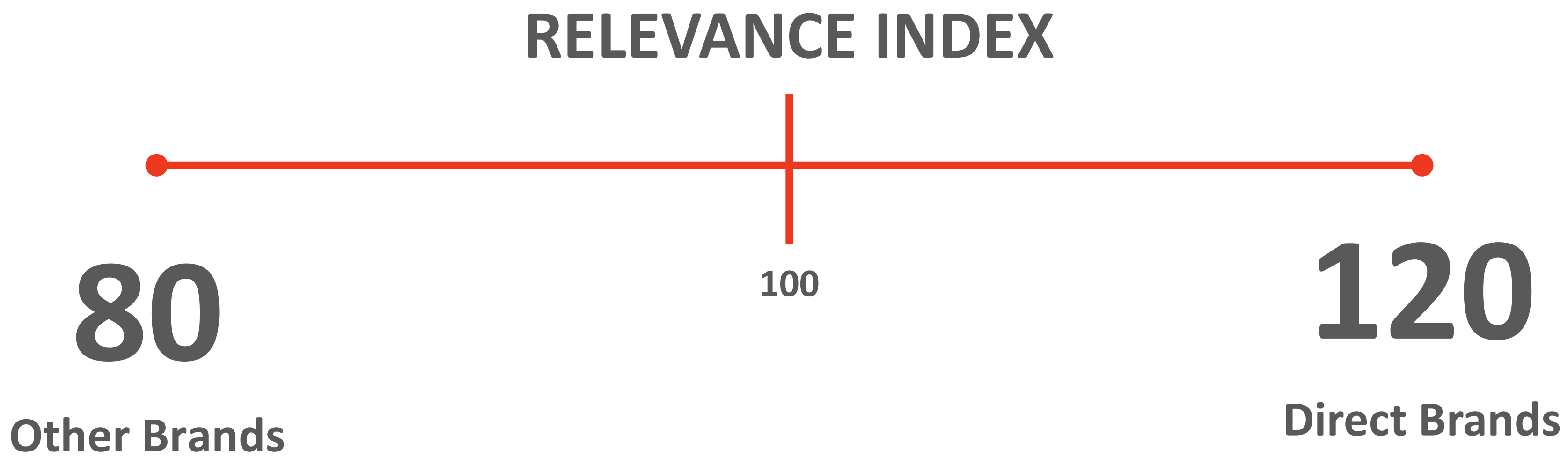
DIRECT BRANDS OUTPERFORM OTHER BRANDS ACROSS ALL ELEMENTS OF RELEVANCE

RETAIL BRANDS THE STATEMENT FITS



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
For each statement, please select the brands that you believe the statement ‘fits’. Please select all brands that apply. Base n=436/856

AGGREGATING ALL DRIVERS OF RELEVANCE, CONSUMERS SEE DIRECT BRANDS AS 50% MORE RELEVANT THAN NON-DIRECT BRANDS



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
For each statement, please select the brands that you believe the statement 'fits'. Please select all brands that apply. Base n=436/856

DIRECT BRANDS OPERATE WITH A NIMBLE BUSINESS MODEL

“The product we first launched with is quite different from the product we have today. We made sure we had a strong feedback loop and took that feedback and quickly iterated the product to meet what our customers wanted.”“

Melanie McVean– Co-Founder, NoPong

“We have so much data around what works and what doesn’t – that’s the beauty of advertising online – you can see instantly .. That didn’t work!”

Vin Ramanadhan – CEO , KOH

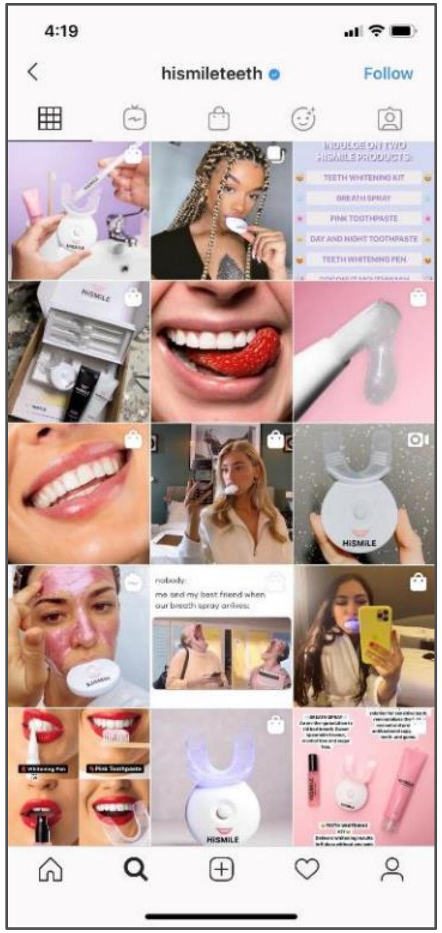
“So we used data, really, from day one. I used my own personal data and research gathering, and then we collected customer information from that first purchase. We conducted regular customer surveys very early on to gain more insights about them, their demographics, how they found out about us, their shopping experience onsite, what they liked or disliked about us, but also to learn about the barriers to purchase”

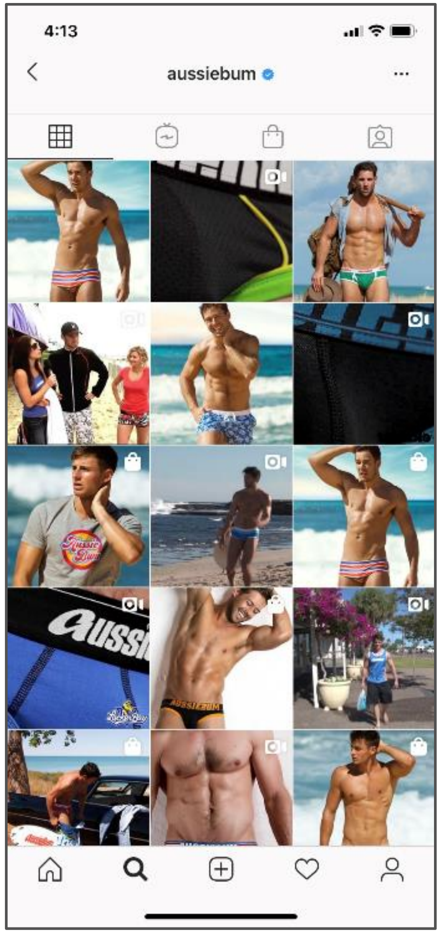
Kristy Chong – Founder, Modibodi

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

WHO IS THE DIRECT BRAND SHOPPER?

THERE IS A PERCEPTION THAT THE DIRECT SHOPPER IS YOUNG AND BEAUTIFUL





IN REALITY … EVERYONE COULD BE A DIRECT BRAND CUSTOMER

"We have a core target of 24 year old females but when you look at the data 40% of our customer base is male"

Justin Gaggino – 2IC, HiSmile

"We don't have one customer profile anymore – it started out that way but to grow the business we have had to evolve .. We have 65 year old women and 20 year old blokes"

Vin Ramanadhan – CEO , KOH

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

DIRECT BRAND SHOPPERS ARE NOT JUST MILLENNIALS, BUT THEY ARE YOUNGER AND MORE METRO

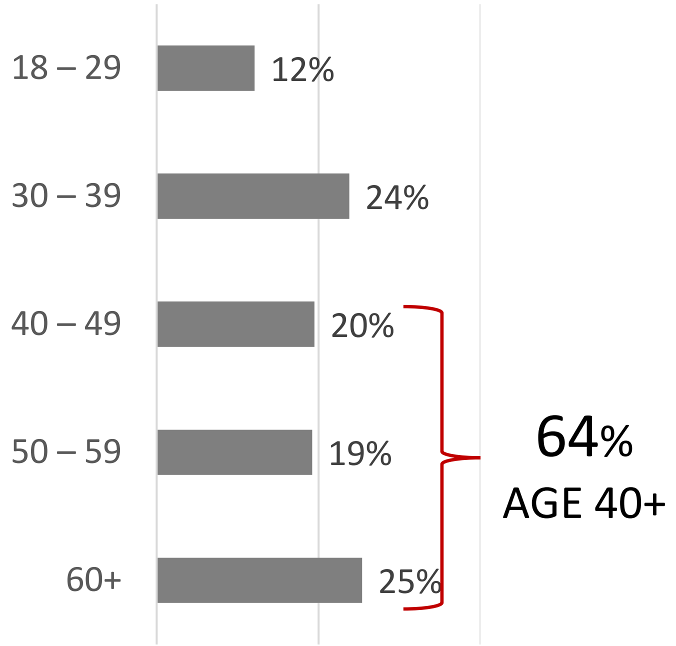
WOMEN

51%

MEN

49%

AGE



46 years

Median age

vs 56 years non-Direct Brand shoppers

71%

Metro

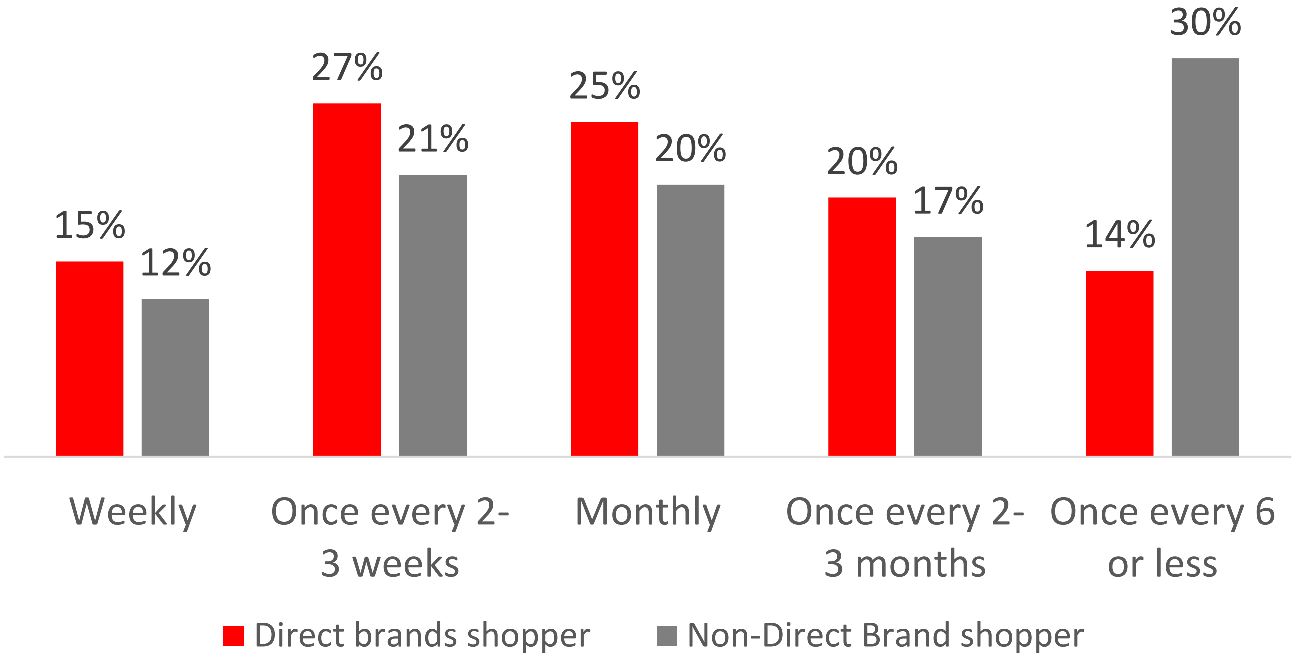
vs 64% non-Direct Brand shoppers

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q Age, Location Base n=1000-1375

DIRECT BRAND SHOPPERS SHOP ONLINE MORE FREQUENTLY

HOW OFTEN DO YOU SHOP ONLINE?

67% of direct brand buyers shop online monthly, compared to 54% those who haven't purchased a direct brand.

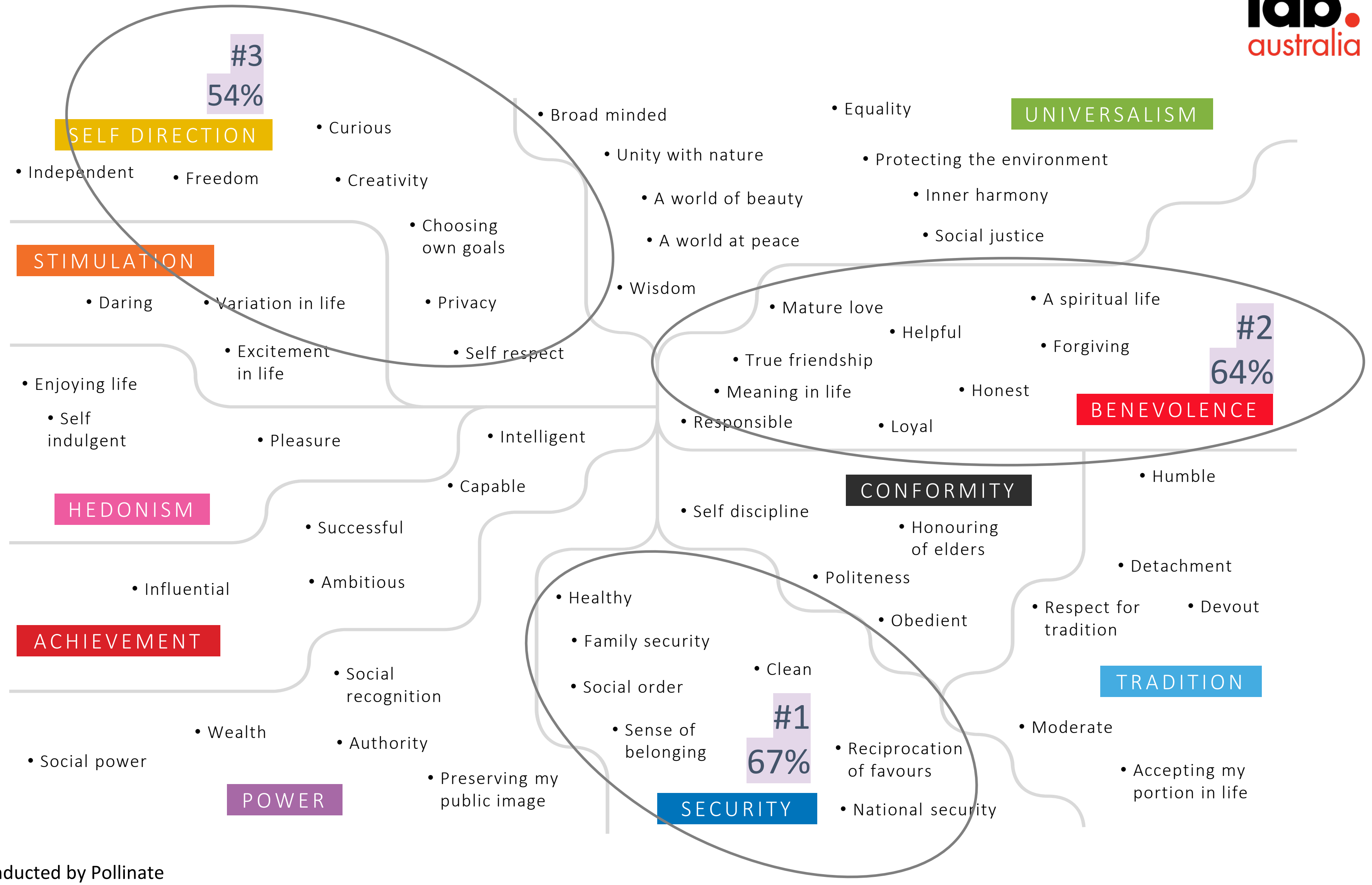


Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
How often do you shop online? Base n=1000-1094

DIRECT BRAND CONSUMERS REFLECT THE GENERAL SHOPPER IN VALUING SECURITY AND ROUTINE,

BUT THEY ARE MORE LIKELY TO VALUE THE FUN AND CURIOUS

DIRECT BRAND SHOPPERS ARE GROUNDED IN SECURITY, BENEVOLENCE & SELF-DIRECTION

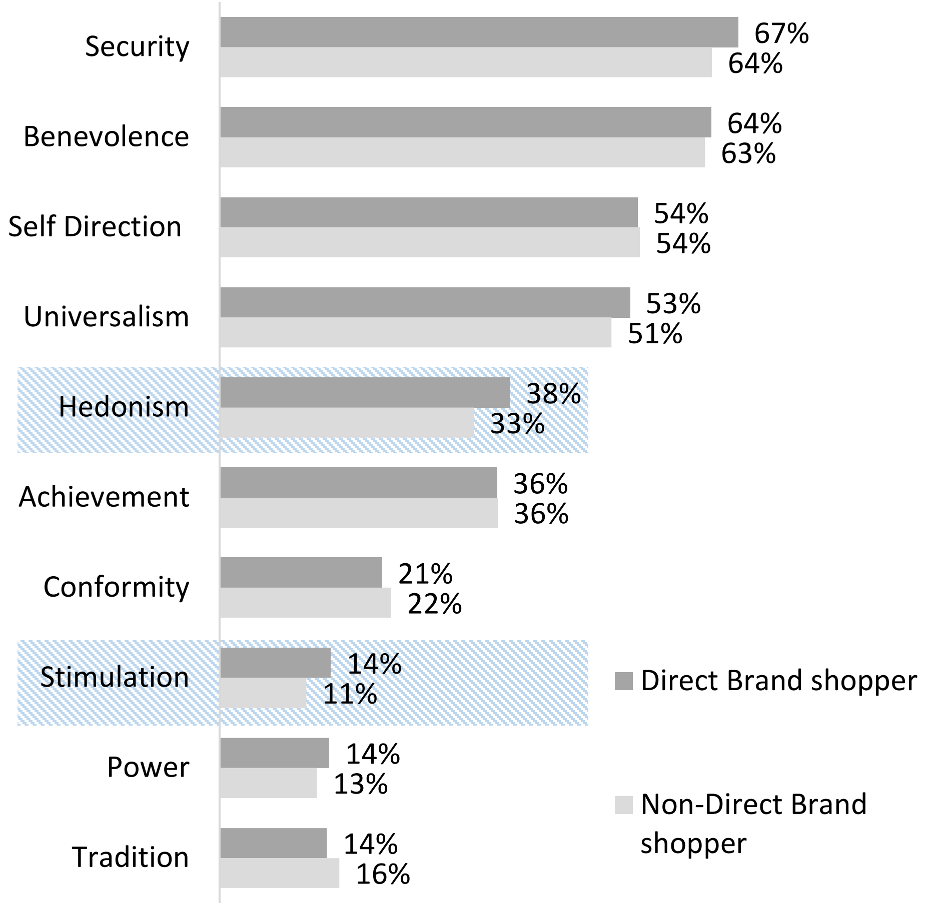


Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Below is a map of universal human values. Which of these are most important to you in your life right now? Base n=1000

DIRECT BRAND SHOPPERS ARE MORE LIKELY TO VALUE THE FUN AND CURIOUS

DIRECT BRAND SHOPPERS AND NON-DIRECT BRAND SHOPPERS HAVE SIMILAR VALUES, HOWEVER DIRECT BRAND SHOPPERS OVERINDEX ON **HEDONISM** AND **STIMULATION**

PERSONAL VALUES

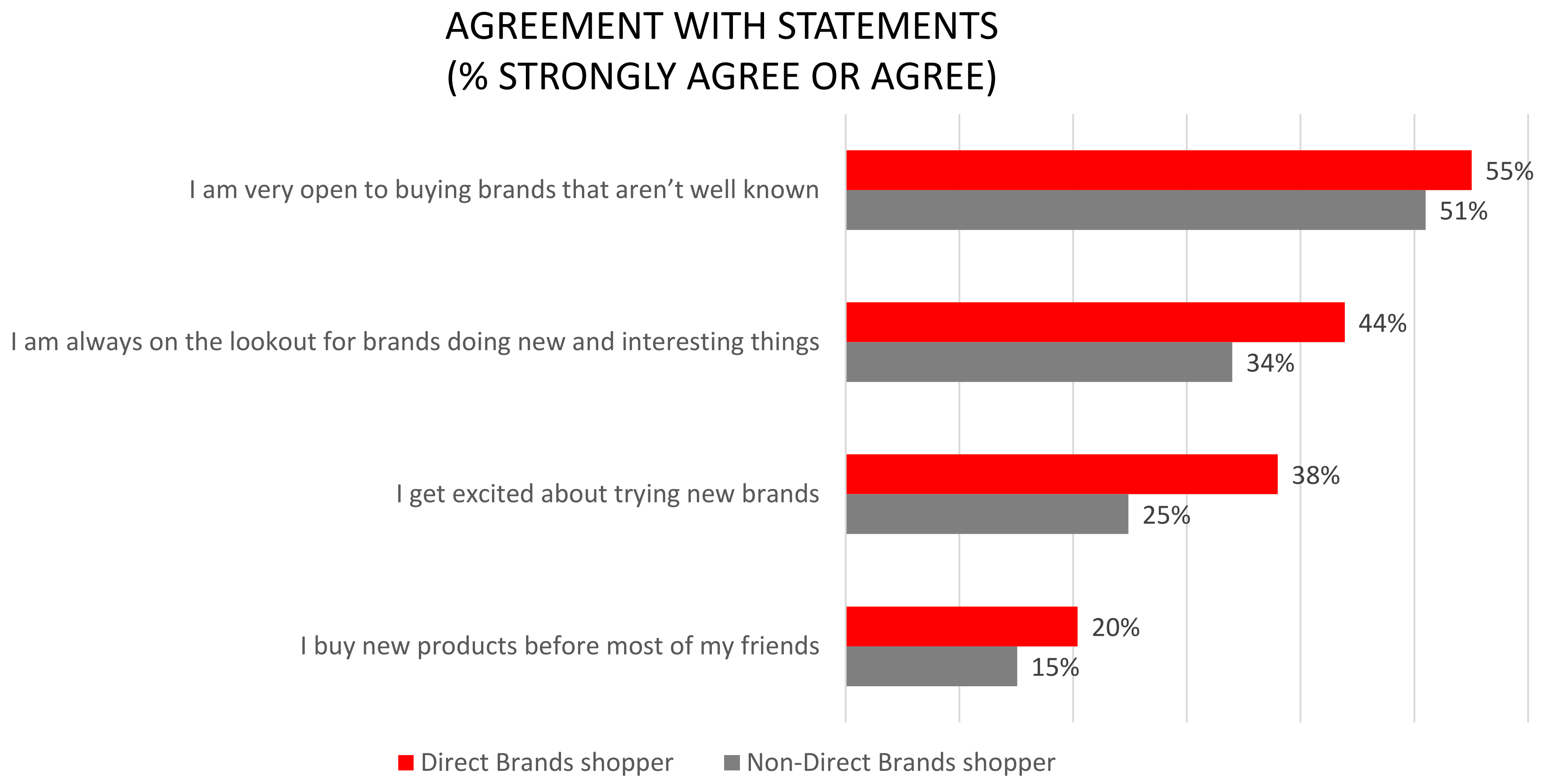


Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Below is a map of universal human values. Which of these are most important to you in your life right now? Base n=1000-1094

WHEN IT COMES TO SHOPPING, DIRECT BRAND BUYERS ARE **EARLY ADOPTERS** (BUT NOT NEW JUNKIES).

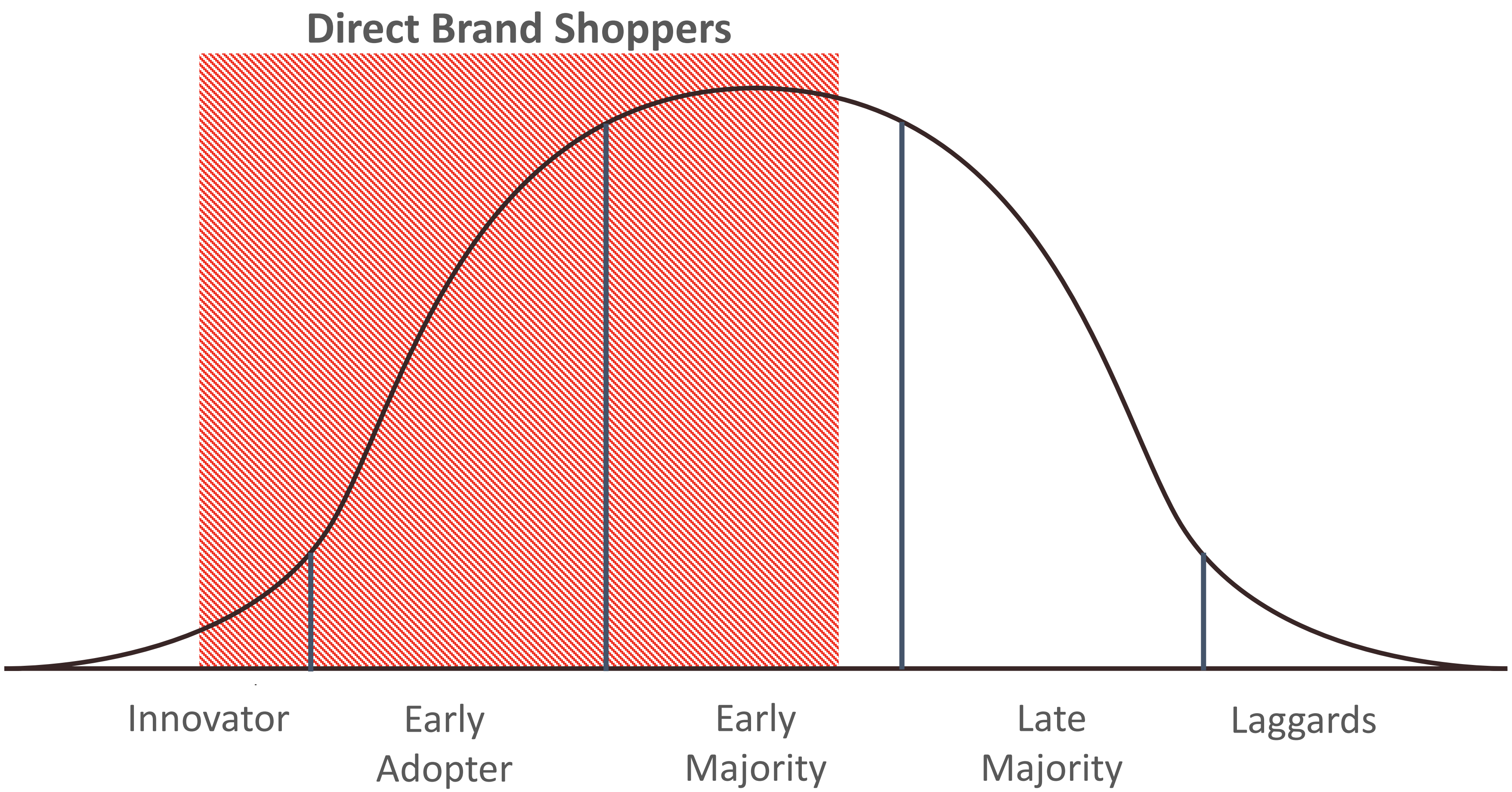
THEY ARE **EXCITED BY TRYING NEW BRANDS** (BUT DON'T JUST PURCHASE ON A WHIM, **RESEARCHING PRIOR** TO PURCHASE).

DIRECT BRAND SHOPPERS ARE MORE ADVENTUROUS WHEN IT COMES TO TRYING NEW BRANDS



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Thinking about when you shop, how much do you agree or disagree with the following? 2: Agree + Strongly Agree Base n= 1000-1375

DIRECT BRAND SHOPPERS CAN BE MAPPED ONTO A TYPICAL INNOVATION ADOPTION MODEL



DESPITE BEING MORE ADVENTUROUS, PURCHASES ARE RESEARCHED

78%

If I'm buying a brand for the first time, I always research it before making the purchase

vs 66% non-Direct Brand shoppers

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q- Thinking about when you shop, how much do you agree or disagree with the following? Base n=1000-1375

DIRECT BRAND SHOPPERS ARE WILLING ADVOCATES, BUT DON'T SEE THEMSELVES AS INFLUENCERS

DIRECT BRAND SHOPPERS ARE MORE WILLING BRAND ADVOCATES BUT DON'T SEE THEMSELVES AS INFLUENCERS

62%

If there is a brand I love, I tend to tell everyone about it

vs 48% non-Direct Brand shopper

23%

People often come to me for advice before buying things

vs 16% non-Direct Brand shopper

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Thinking about when you shop, how much do you agree or disagree with the following? Base n=1000-1375

“Our customers can be fierce advocates … sometimes our customer team don’t even have time to reply to comments on Facebook as other customers pitch in first – give them tips, tell them what they are doing wrong”

Vin Ramanadhan – CEO , KOH

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

HOW DO AUSTRALIANS SHOP FOR DIRECT BRANDS?

Step 1
Discover

Word of mouth

Online search

Step 2
Purchase

Low cost & convenience (hygiene)

Uniqueness, reviews, quality (motivation)

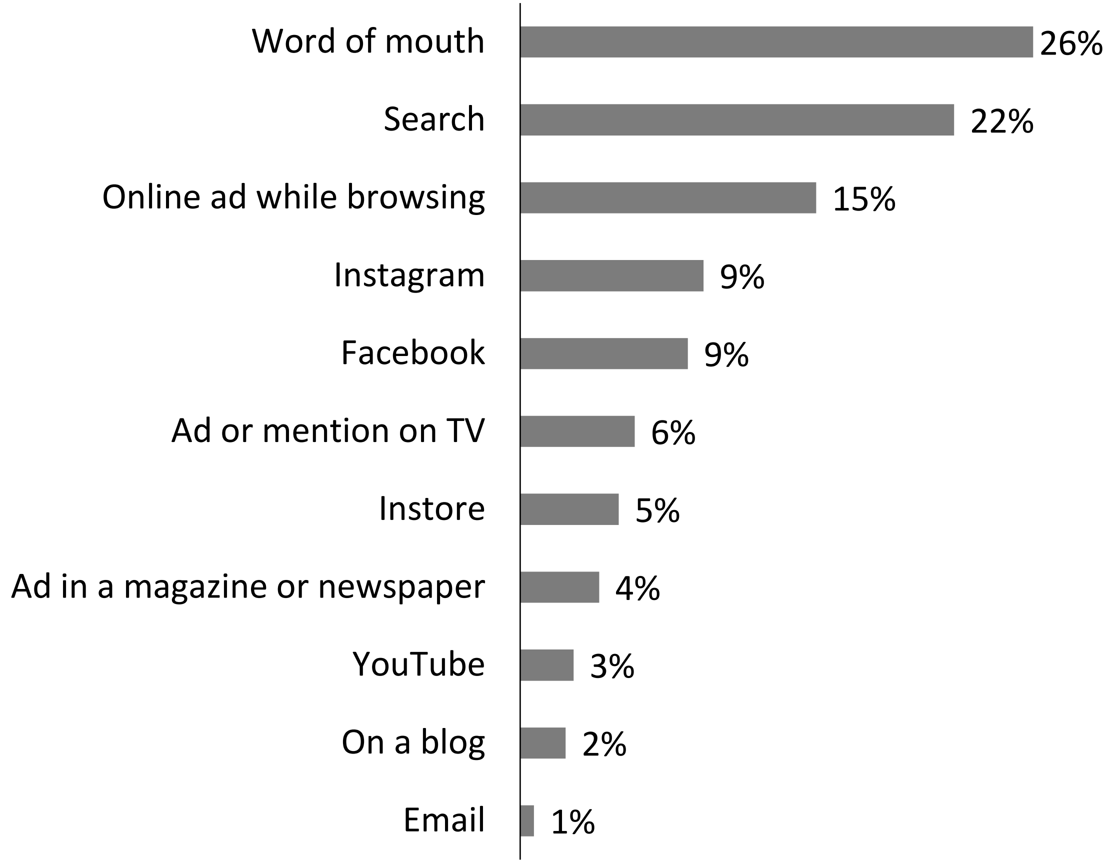
Step 3
Love

Move beyond cost

Great product

Alignment with personal values

SEARCH AND SOCIAL ARE WHERE MOST DISCOVERED THEIR FAVOURITE DIRECT BRAND



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - How did you hear about [INSERT FAVOURITE BRAND AT E1] before you made your first purchase? Base n=1000

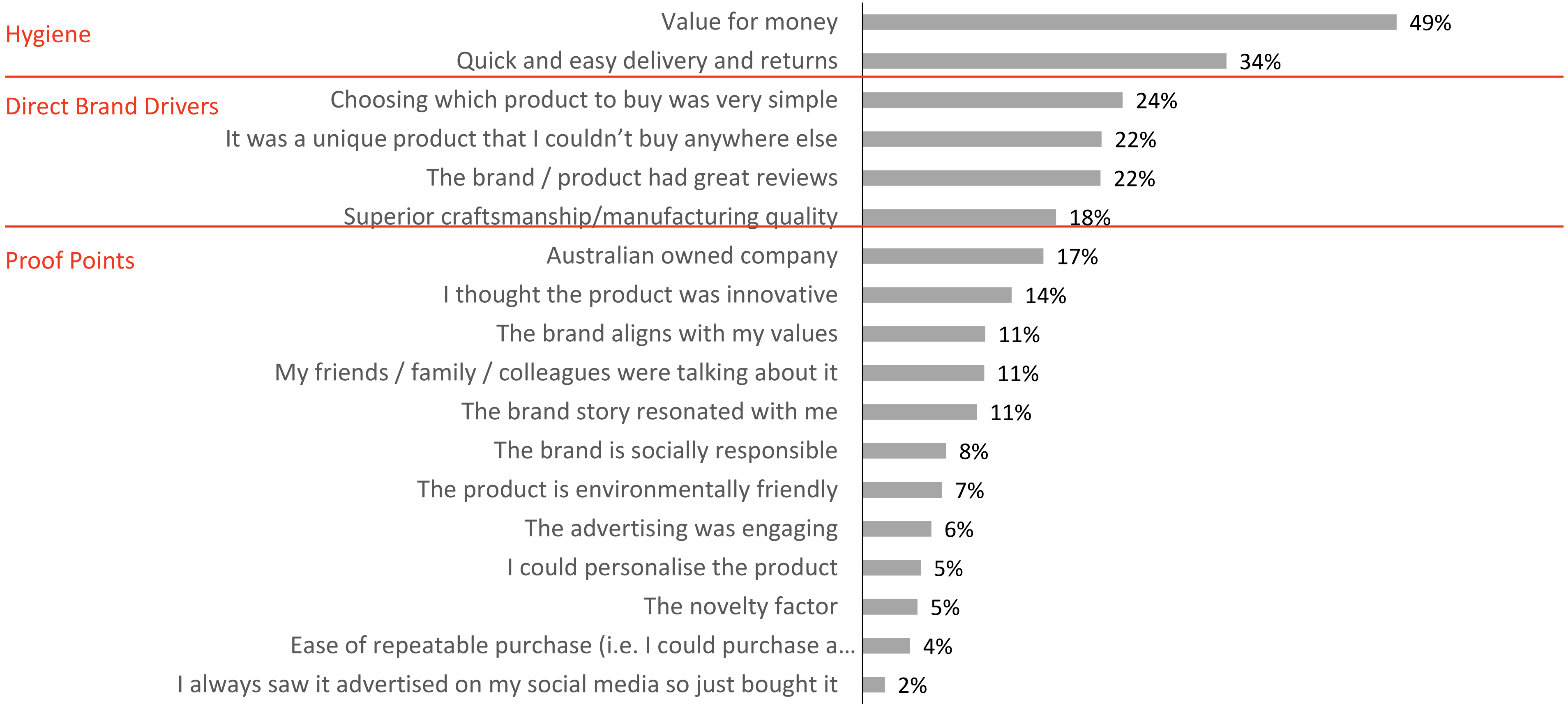
PRICE IS WHAT GETS SHOPPERS OVER THE LINE WHEN IT COMES TO THE FIRST PURCHASE

1. Price
2. Suited to me (purpose, design etc)
3. Perception of quality
4. Ease of buying
5. Uniqueness
6. Brand experience/customer service

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - How did you hear about [INSERT FAVOURITE BRAND AT E1] before you made your first purchase? Base n=1000

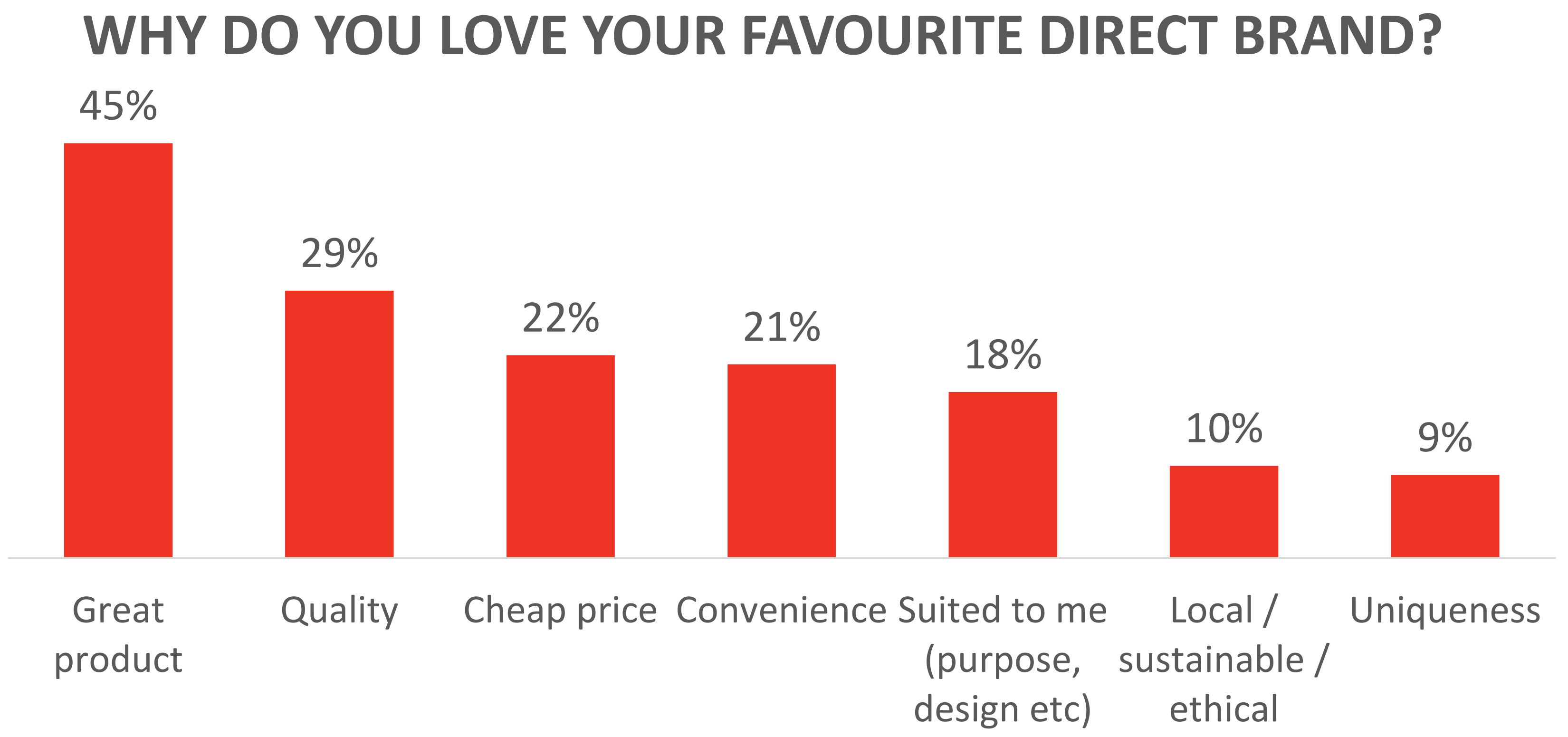
EASE OF CHOICE, UNIQUENESS, QUALITY AND REVIEWS DRIVE THE ATTRACTION TO DIRECT BRANDS

WHAT ATTRACTED YOU TO YOUR FAVOURITE DIRECT BRAND?



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - And still thinking about what attracted you to [INSERT FAVOURITE BRAND AT E1] in the first place, what from this list did you find compelling? Base n=1021

SHOPPERS FALL IN LOVE WITH DIRECT BRANDS BECAUSE OF GREAT QUALITY PRODUCTS

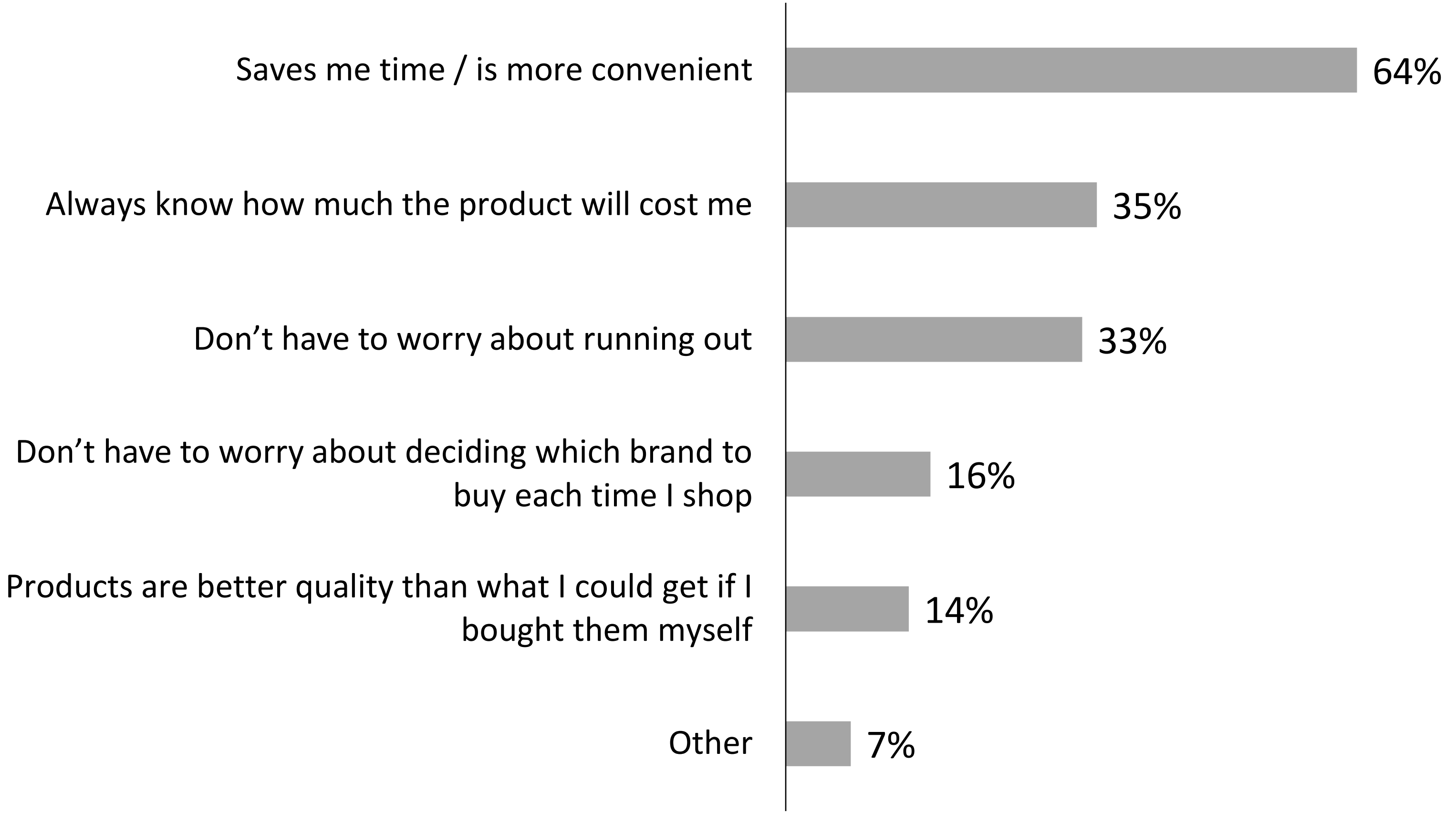


Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q -What is the most important thing to you when you are buying base n=344-313

13% OF DIRECT BRAND BUYERS HAVE A SUBSCRIPTION FOR PRODUCT DELIVERY

Those who aren't subscribed aren't adverse, they just haven't found something they want yet

WHAT DO YOU LIKE ABOUT PRODUCT DELIVERY SERVICES?



D2. Are you currently subscribed to any product delivery services (e.g. meals, beauty products, cleaning products, etc)?Base n=1021

DIRECT BRANDS REPORT A HIGH CUSTOMER RETENTION RATE

"We have some amazing long term customers, some even since our first couple weeks of sales. It is so exciting when we see their names come through as we recognise them from when we started."

Chris Caley, Co-Founder NoPong

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

TALKING TO DIRECT BRAND SHOPPERS

MARKETING IS A SIGNIFICANT PART OF DIRECT BRAND EXPENDITURE

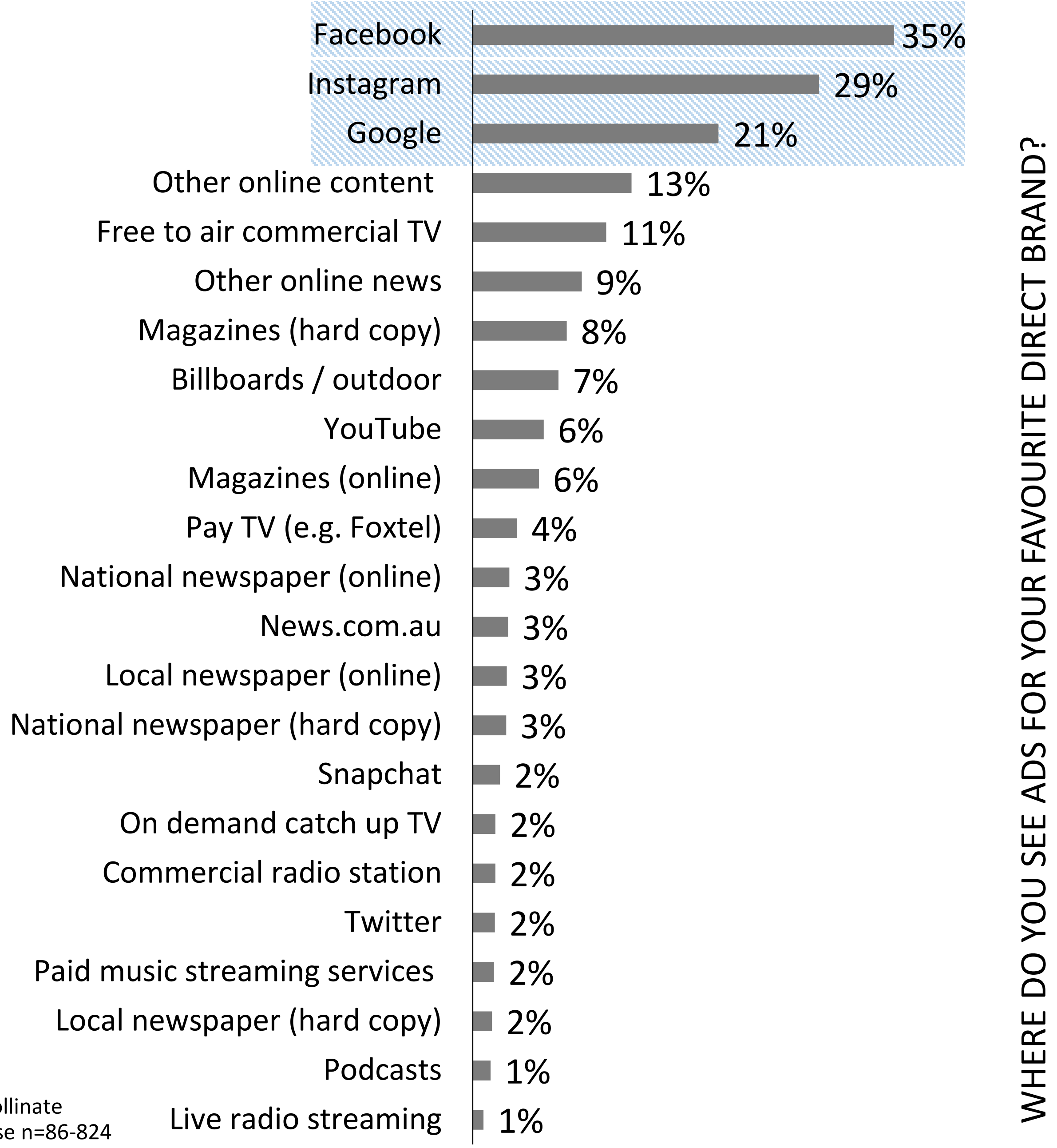
“People go ‘oh well, you haven't got all those overheads, and you haven't got all those resources, or staff on the road…’ and I'm like, ‘yeah, but you've got marketing costs’, they're a lot higher in a D2C run business”

Kristy Chong – Founder, Modibodi

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

DIRECT BRAND MARKETERS ARE CHANNEL AGNOSTIC

SHOPPERS SEE ADS FOR DIRECT BRANDS IN A RANGE OF MEDIA, FACEBOOK, INSTAGRAM AND GOOGLE ARE THE MOST RECALLED PLACES.



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - And where do you see ads for [INSERT FAVOURITE BRAND AT E1]? Base n=86-824

DIRECT BRAND MARKETERS JUST WANT ROI AND MEDIA BUYING FLEXIBILITY

"Well we used to spend a lot of our budget on digital, but that's actually rolled back now. So digital is great for conversion driving, but it doesn't always grow the brand, it's very costly to grow brand on digital. So we're actually finding that out-of-home can be a really good way to grow brand and drive traffic, so you get better conversion on digital."

"We don't lock in anything further than a quarter ahead. We know that also means we pay price premiums [for media], but because we want to maintain that flexibility, and we are still testing as well. So, we are testing all these different channels and seeing how they all work together."

Kristy Chong – Founder, Modibodi

" Honestly, we will go where our target customer is."

Vin Ramanadhan – CEO , KOH

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Direct brand founder interviews

DIRECT BRANDS' CUSTOMERS: ONCE THEY'RE IN, THEY'RE IN! LOYALTY TO DIRECT BRANDS

POSITIVE EXPERIENCE WITH DIRECT BRANDS IS REINFORCING FURTHER DEMAND

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The more direct brands shoppers buy, the stronger the mindset and openness to buying new brands.

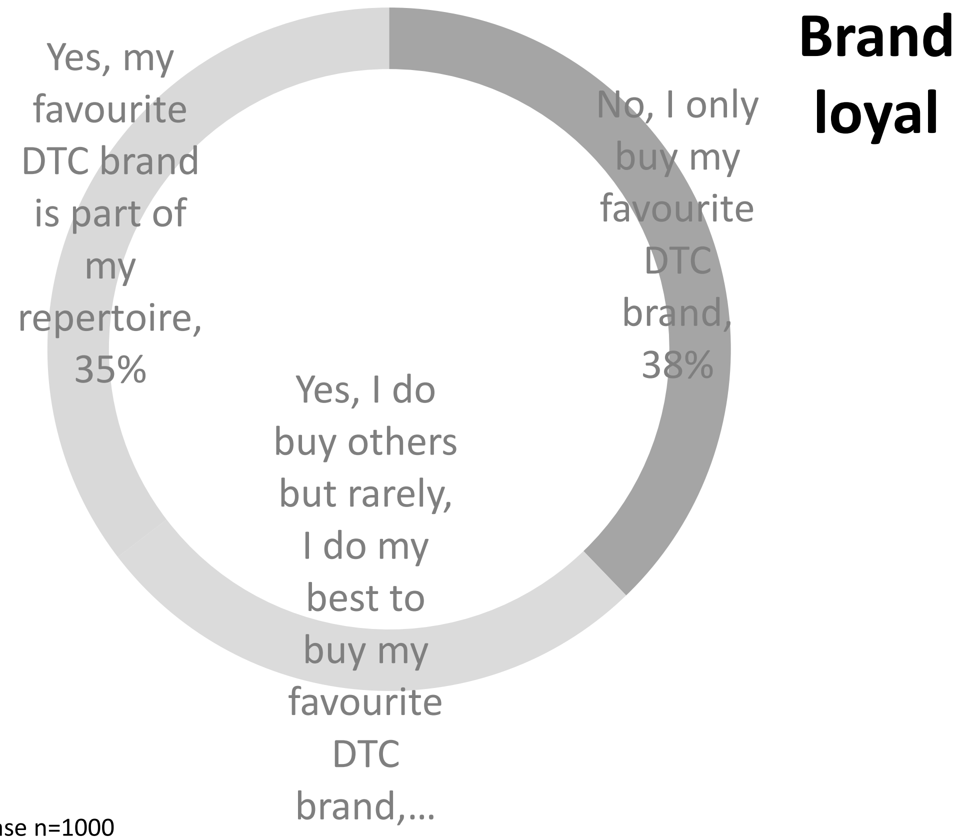
HOW MUCH DO YOU AGREE? (% STRONGLY AGREE OR AGREE)

	1 Direct Brand bought	2-3 Direct Brands bought	4+ Direct Brands bought
I am prepared to pay more for products that make my life easier	65%	65%	**77%**
I prefer to buy from brands that I know are sustainable	56%	58%	**67%**
Purchasing from ethical brands is important to me	55%	59%	**60%**
I am very open to buying brands that aren't well known	52%	57%	**63%**
I am happy to pay extra to personalise products to suit my taste and style	42%	50%	**58%**
I am always on the lookout for brands that are doing new and interesting things	41%	45%	**57%**
I get excited about trying new brands	36%	39%	**49%**

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Q - Thinking about when you shop, how much do you agree or disagree with the following? Base n=90-527

2 IN 5 ARE LOYAL TO THE PRODUCT THEY BUY FROM THEIR FAVOURITE DIRECT BRAND

DO YOU BUY THE SAME PRODUCT THAT YOU BUY FROM YOUR FAVOURITE DIRECT BRAND FROM ANY OTHERS?



Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Do you buy the same product that you buy from [INSERT FAVOURITE BRAND AT E1] from any other brand? Base n=1000

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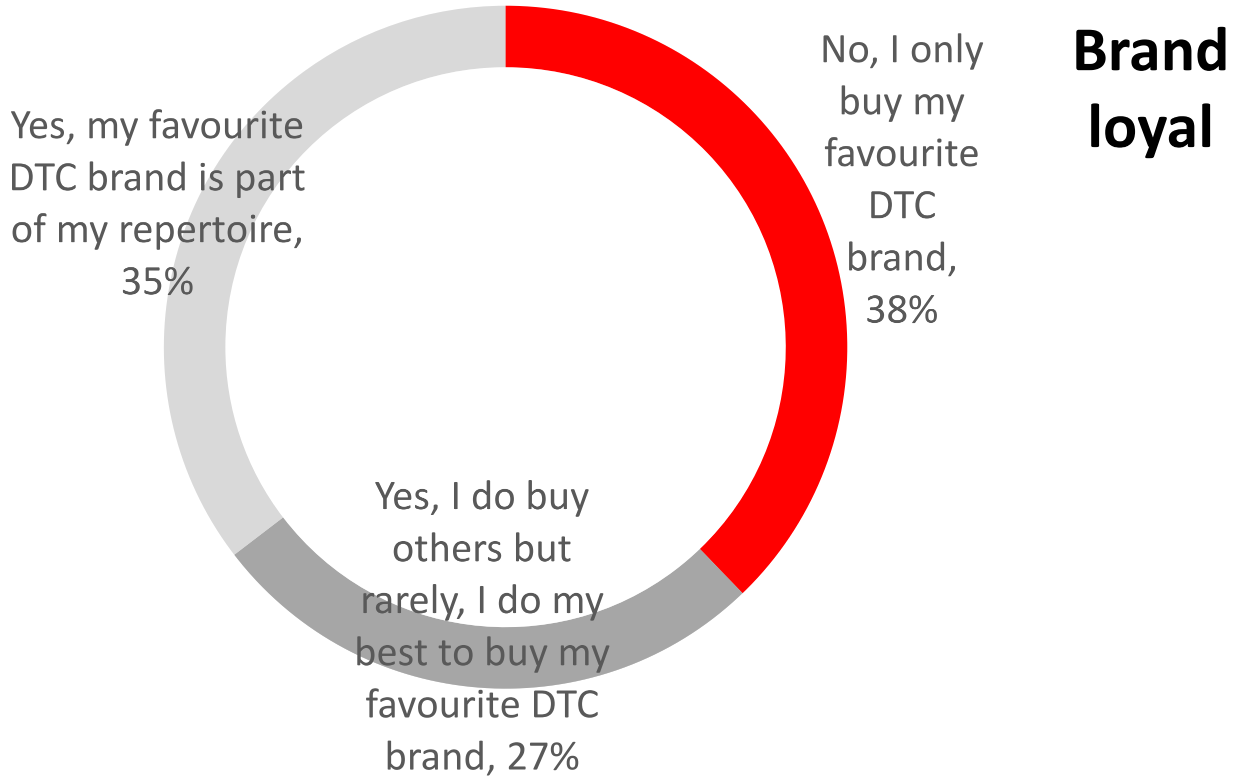

Source; IAB Australia Direct Brands Study February 2020 conducted by Pollinate
Do you buy the same product that you buy from [INSERT FAVOURITE BRAND AT E1] from any other brand? Base n=1000

DIRECT BRANDS LOYALTY MODEL

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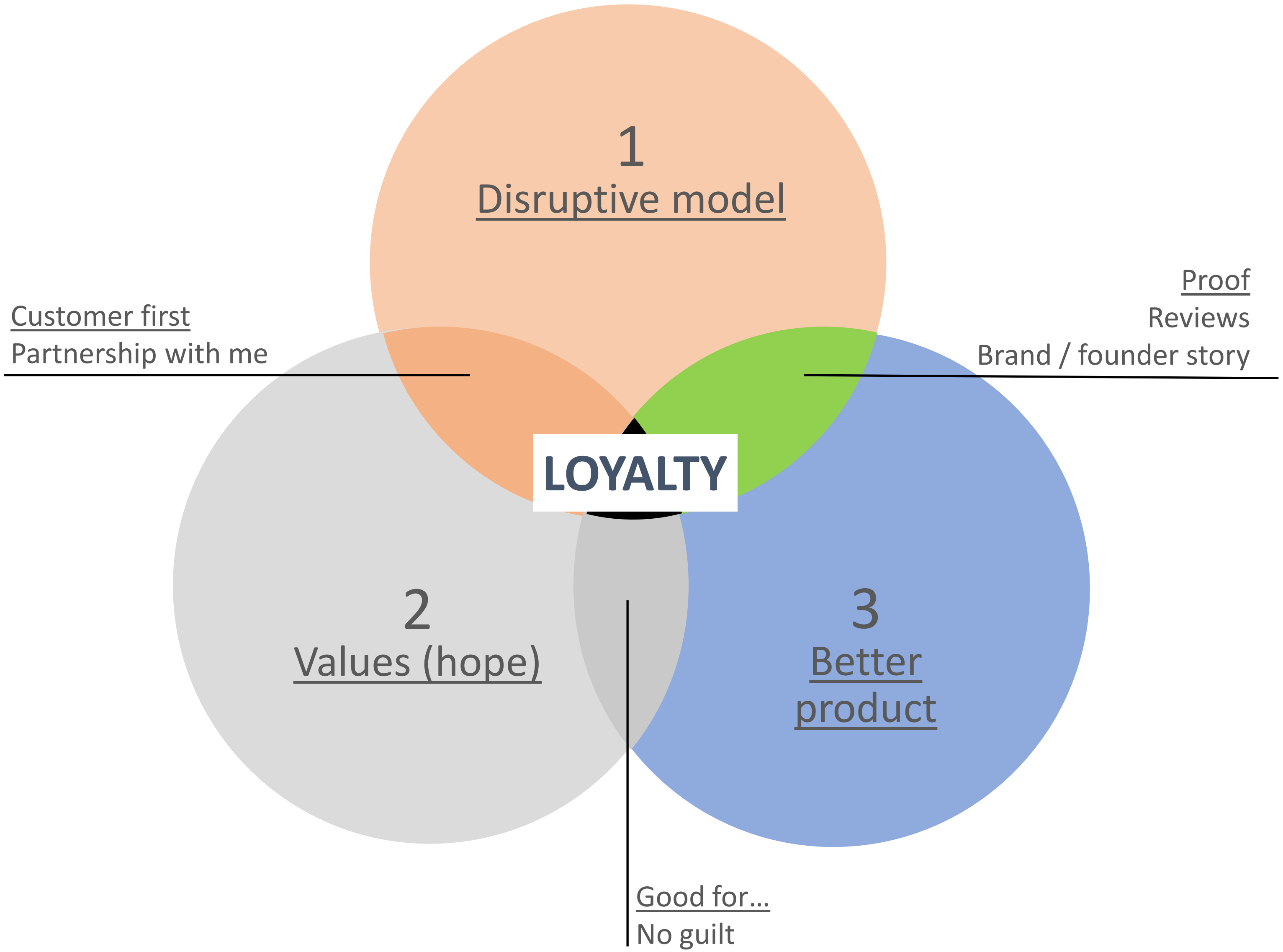

LESSONS FOR DIRECT BRANDS, MEDIA OWNERS, AGENCIES AND TRADITIONAL BRANDS

HOW CAN MEDIA OWNERS AND AGENCIES HELP DIRECT BRANDS REACH THEIR NEXT PHASE OF GROWTH?

- ✓Provide ways for audiences to interact with their favourite direct brands and discover new ones
- ✓Support direct brands data-driven approach to marketing
- ✓Provide the tools direct brands need to take a test and-learn approach,
- ✓Provide guidance in areas like campaign planning, cross-platform measurement and creative development
- ✓ Adapt to the mindsets and working styles of direct brands being more agile & data-driven

WHAT CAN DIRECT BRAND FOUNDERS FOCUS ON FOR LONG TERM SUSTAINABILITY?

✓Continue to be data-informed but be mindful of gaps in data.

✓Combine branding and performance in campaigns.

✓Prioritize LTV over CAC

✓Avoid over reliance on word-of-mouth and reviews and advocacy

✓Continue to be customer-centric, media neutral

✓Explore the opportunity of using multiple channels in the media mix to broaden audiences and drive growth and ROI.

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HOW CAN TRADITIONAL BRANDS ADAPT TO THE DIRECT BRAND MODEL?

- ✓Understand the opportunity of direct-to-consumer, including the value using new channels and routes to market that offer 1st party data relationships
- ✓Return to a clear brand purpose
- ✓Position the brand as master of a category to demonstrate authority within a product/service category
- ✓Employ a nimble test and learn approach to marketing and innovation in new product development

OVERALL IMPLICATIONS

The current economic and social climate has more than ever highlighted a shift to rewarding the strengths of direct brand businesses. A nimble business model, strong brand purpose, empathetic mission-based marketing, combined with classic marketing expertise in all areas (promotion, price, product and distribution) are contributing to a resilient direct brand landscape.

Meanwhile direct brand businesses should continue to be customer-centric and explore the opportunity in a broader media mix, learning from the wider media industry and traditional models to drive growth without losing what's special about them.

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