



EXECUTIVE INSIGHTS

How Home Furnishings Brands Can Gauge Their DTC Potential

In a previous *Executive Insights*,¹ we discussed the importance of using marketplaces to cement online success in furniture and homeware along with balancing your brand's approach based on its wholesale and direct-to-consumer (DTC) strategies. Now let's turn to the question of whether — and to what degree — a DTC presence is right for your brand and business.

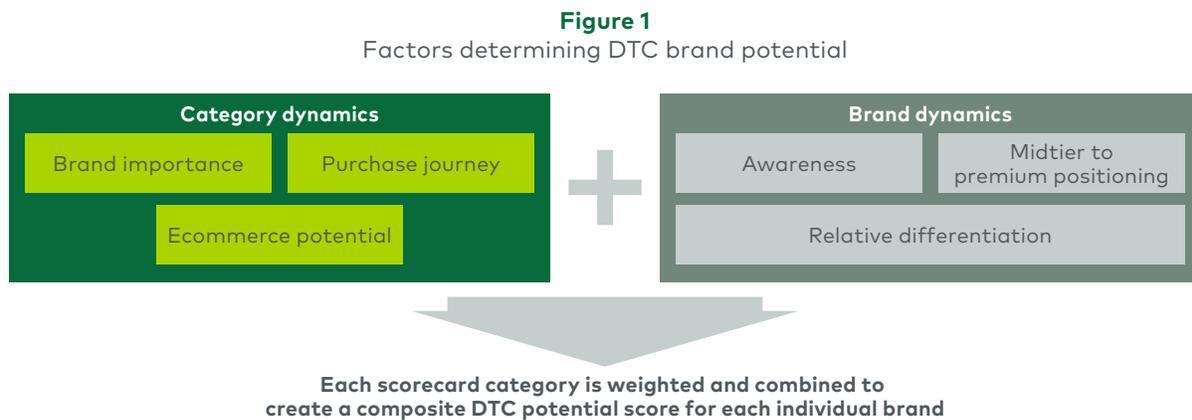
Digitally native DTC brands first entered the home furnishings market by disrupting the mattress category. Brands in other categories quickly followed suit. Upstarts like Burrow, Joybird and Brooklinen began taking share from traditional retail and marketplace brands even before the pandemic-fueled shift to ecommerce in 2020 and 2021. While none of these brands have run away with their respective categories, they've shown that consumers are willing to purchase directly from brands so long as those brands are differentiated.

DTC capabilities extend a brand's offerings beyond wholesale and marketplace channels, potentially boosting margins and strengthening consumer relationships. But brands don't all have to invest in DTC the same way. Neither do they have an equal likelihood of DTC success. The most effective DTC strategy is one that acknowledges these realities along with the size of the opportunity for the business.

Factors driving DTC brand potential

This leaves home furnishings manufacturers and brands asking what investments they need to make in DTC capabilities. To answer this, we need to consider each brand's DTC potential.

L.E.K. Consulting recently analyzed over 100 top furniture, furnishings and homeware brands. Our findings indicate that the DTC potential for any given brand depends on a confluence of several factors (see Figure 1). Let's take a closer look.



Note: DTC=direct-to-consumer
Source: L.E.K. research and analysis

Category dynamics (your baseline potential)

The category a brand participates in provides some indication of the baseline DTC potential, but it's only one part of the equation. The key factor is the role ecommerce plays in research and discovery when shopping the category. Specifically:

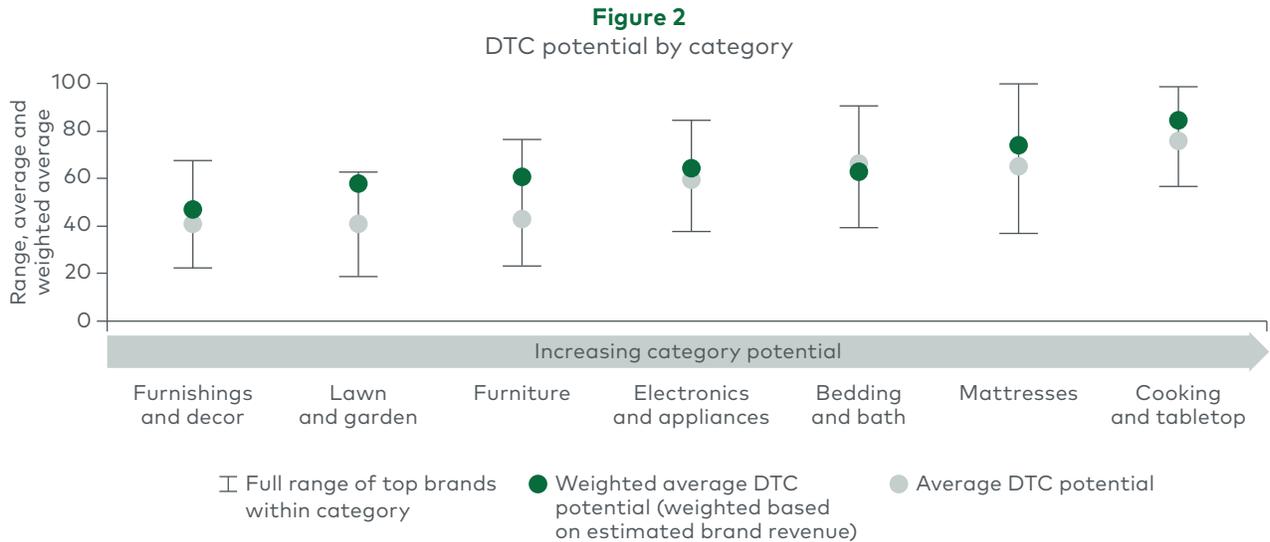
- Is the product a significant purchase and primary trip driver?
- Is brand an important part of the purchase decision in the category?
- Do consumers shop with a specific brand or set of brands in mind?
- Are there meaningful ways brands can differentiate within the category?
- Is the consumer extensively researching the category before purchasing?

These indicators reveal the extent to which consumers understand — or will invest in understanding — the brand landscape. That in turn will determine the likelihood they move beyond exploring products on marketplaces like Amazon and Wayfair, shopping multibrand retail, or engaging only with a limited set of top-of-mind brands.

Between marketplaces and the ecommerce initiatives of brands and retailers, ecommerce sales in home furnishings have grown steadily, from 16% of total sales in 2016 to 37% in 2022.² This growth has made the category a brand participates in far less important, but some differences remain.

According to our analysis, differences in buying dynamics across categories affect the baseline DTC potential of a given category. As you might expect, categories such as furniture are on the

lower end, while categories such as bedding/bath and cooking/tabletop are on the higher end (see Figure 2).



Note: DTC=direct-to-consumer
Source: L.E.K. research and analysis

Despite the differences in baseline potential, you'll notice that a range of potential exists above and below the average. Where a brand falls within this range is a function of brand dynamics, which we'll discuss next.

Brand dynamics (getting more than your fair share)

Three brand dynamics indicate higher DTC potential:

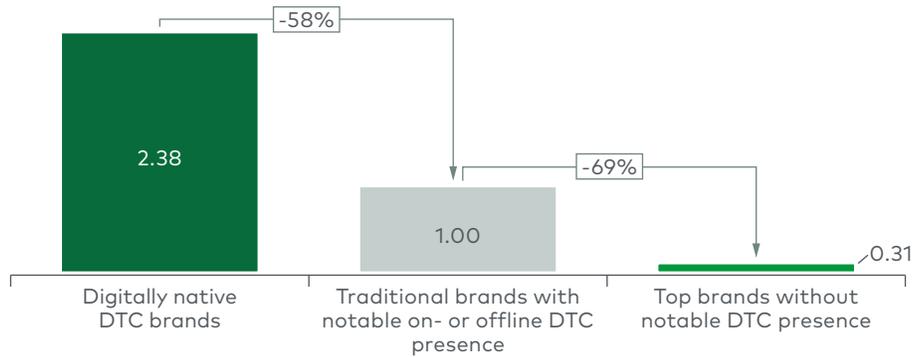
1. Brand awareness
2. Midtier to premium positioning
3. Brand differentiation

Brand awareness is a key success factor for DTC brands and an area in which digitally native DTC brands have invested heavily. In our assessment of top brands, we found that brand awareness of digitally native DTC brands (after normalizing for their relative sales) is two times that of traditional brands with a notable DTC presence. Meanwhile, brands without a notable DTC presence severely underperform on awareness (see Figure 3). DTC growth depends on your ability to make the most of brand awareness where you have it and build it where you don't.

Midtier to premium positioning reflects the fact that early adopters of DTC brands are among the more affluent consumers in the home furnishings market. Beyond that, the bigger gross margins that come with higher-end positioning support the economics of a DTC business,

Figure 3
Relative brand awareness by brand type

Indexed to traditional brands with a notable on- or offline DTC presence*



*Awareness is based on Google Trends search interest over the past 12 months

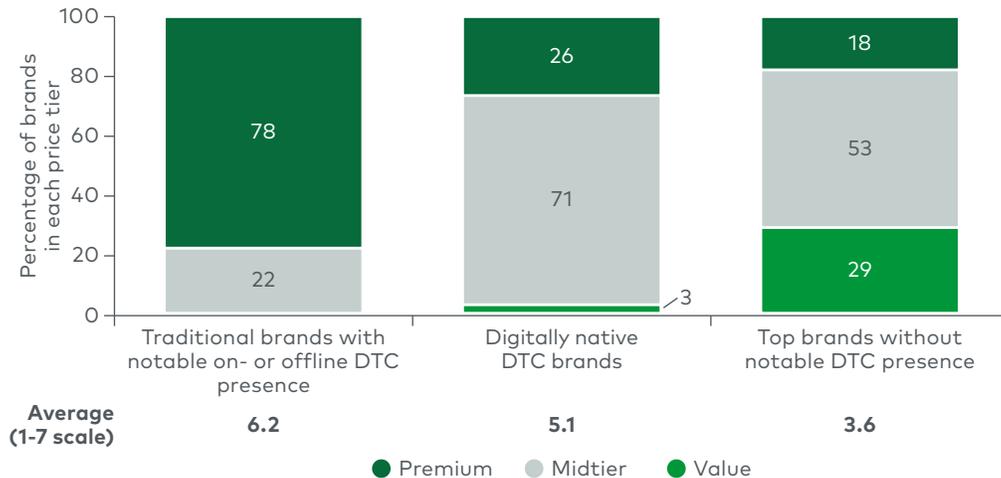
Note: DTC=direct-to-consumer

Source: BEA; company websites; Google search trends; L.E.K. intellectual property; L.E.K. research and analysis

making it easier to operate owned stores profitably or offset online customer acquisition and fulfillment costs.

Our analysis reveals that midtier to premium positioning is common to nearly all brands with a DTC presence today. Among traditional brands with a notable DTC presence, the vast majority have purely premium positioning (see Figure 4).

Figure 4
Relative price point mix, by brand type



Note: DTC=direct-to-consumer

Source: Company websites; L.E.K. intellectual property; L.E.K. research and analysis

Brand differentiation among brands with a leading DTC presence is typically tied to at least one dimension that inspires shoppers to engage with the brand directly. Most brands aim to differentiate across three dimensions (see Figure 5).

Figure 5
Dimensions of brand differentiation

Sources of differentiation for home brands



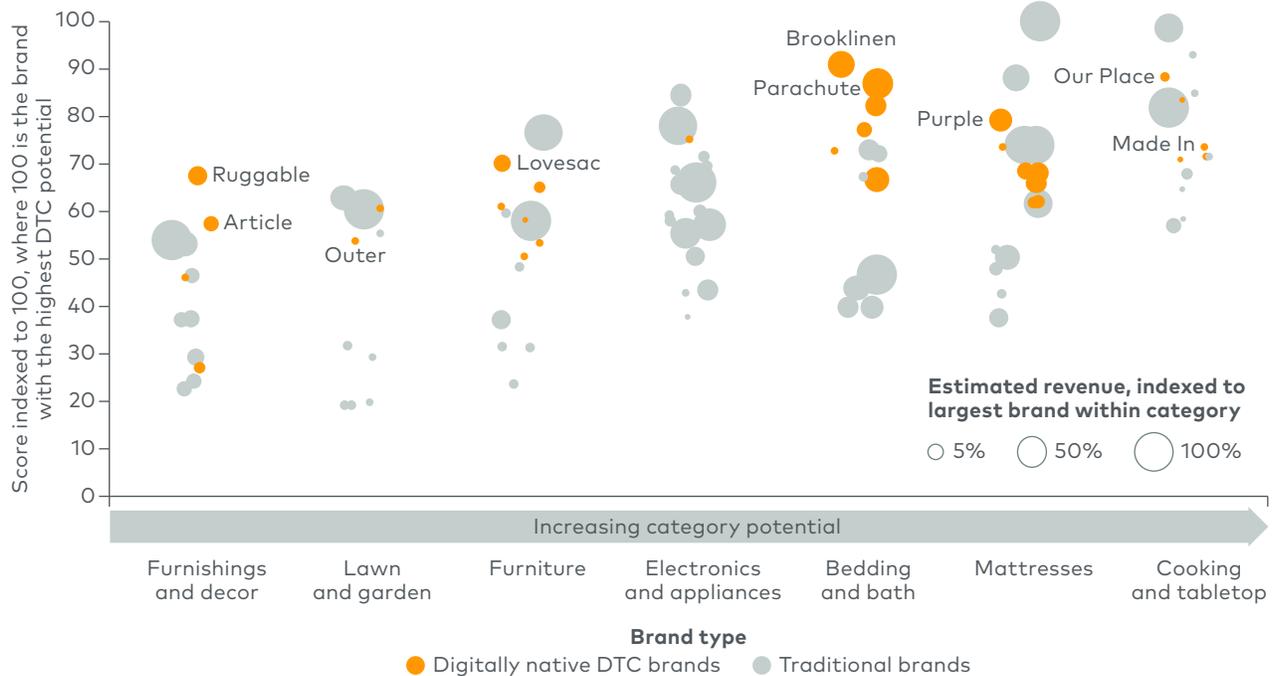
Source: L.E.K. research and analysis

How categories and brands stack up

How do categories and brands stack up against the dynamics we just outlined?

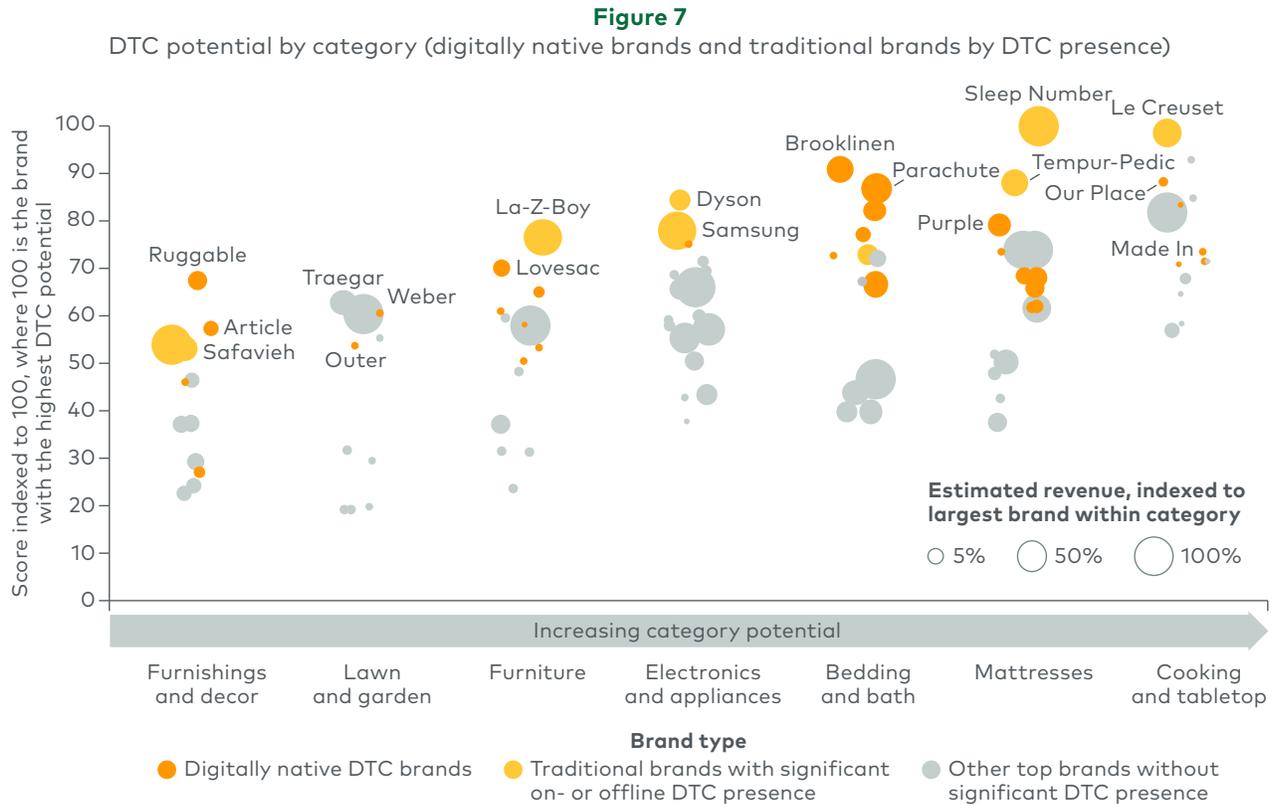
One way to look at it is by highlighting the most prominent digitally native DTC brands. These brands exist in every category. But from a scale perspective, they're most competitive in mattresses and in bedding and bath – the two categories where they achieved the earliest penetration. For digitally native brands, the challenge is to grow awareness and differentiate themselves in categories where traditional brands have greater scale (see Figure 6).

Figure 6
DTC potential by category (digitally native and traditional brands)



Note: DTC=direct-to-consumer
 Source: L.E.K. research and analysis

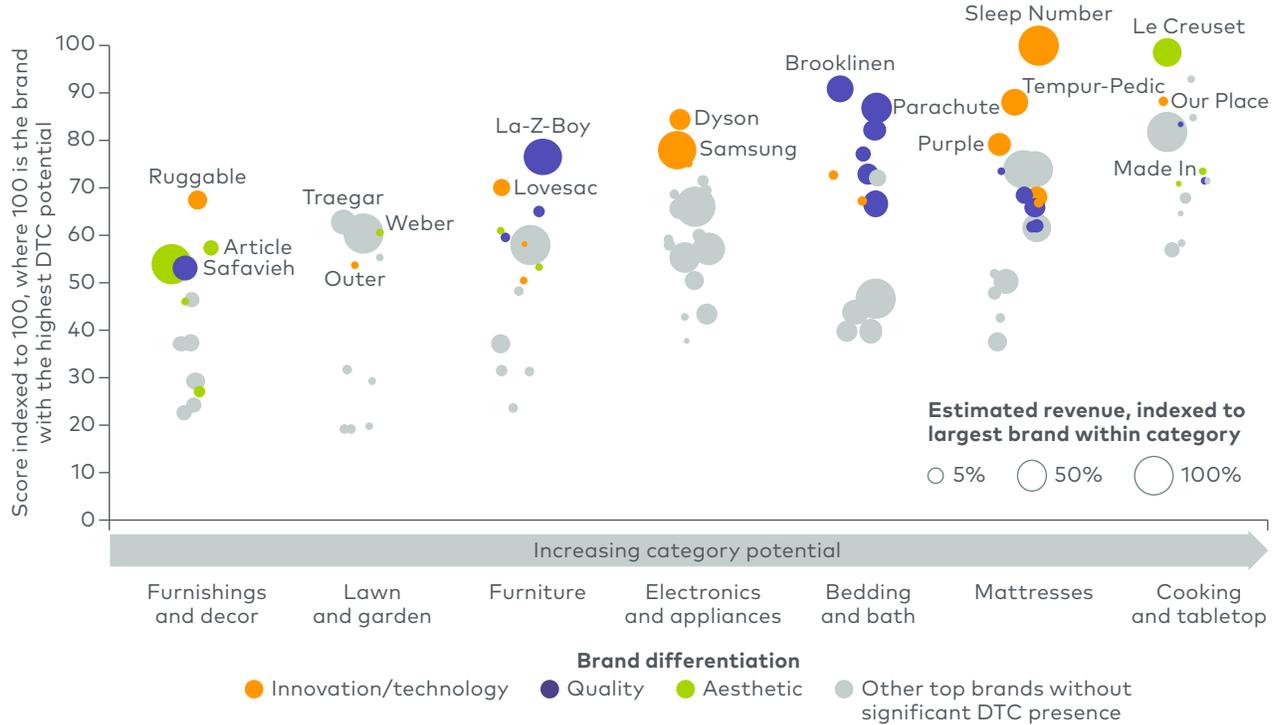
The same analysis reveals that major premium traditional brands with a notable DTC presence (online or offline) represent a subset of the largest-scale brands in their respective categories. Figure 7 shows the attributes these brands have emphasized most for their premium positioning. For these brands to realize their DTC potential, they'll need strategies that take advantage of the levers available to them and account for the growth of their DTC business alongside their traditional channel growth.



Note: DTC=direct-to-consumer
 Source: L.E.K. research and analysis

For each brand with a DTC presence, a look at the primary differentiator offers insight into how they're competing within categories today. It also gives us an idea of where they have opportunities to grow their DTC presence (see Figure 8). Current DTC brands have been able to establish brand equity in otherwise lightly branded categories by building on their points of differentiation.

Figure 8
DTC potential by category and primary brand differentiator

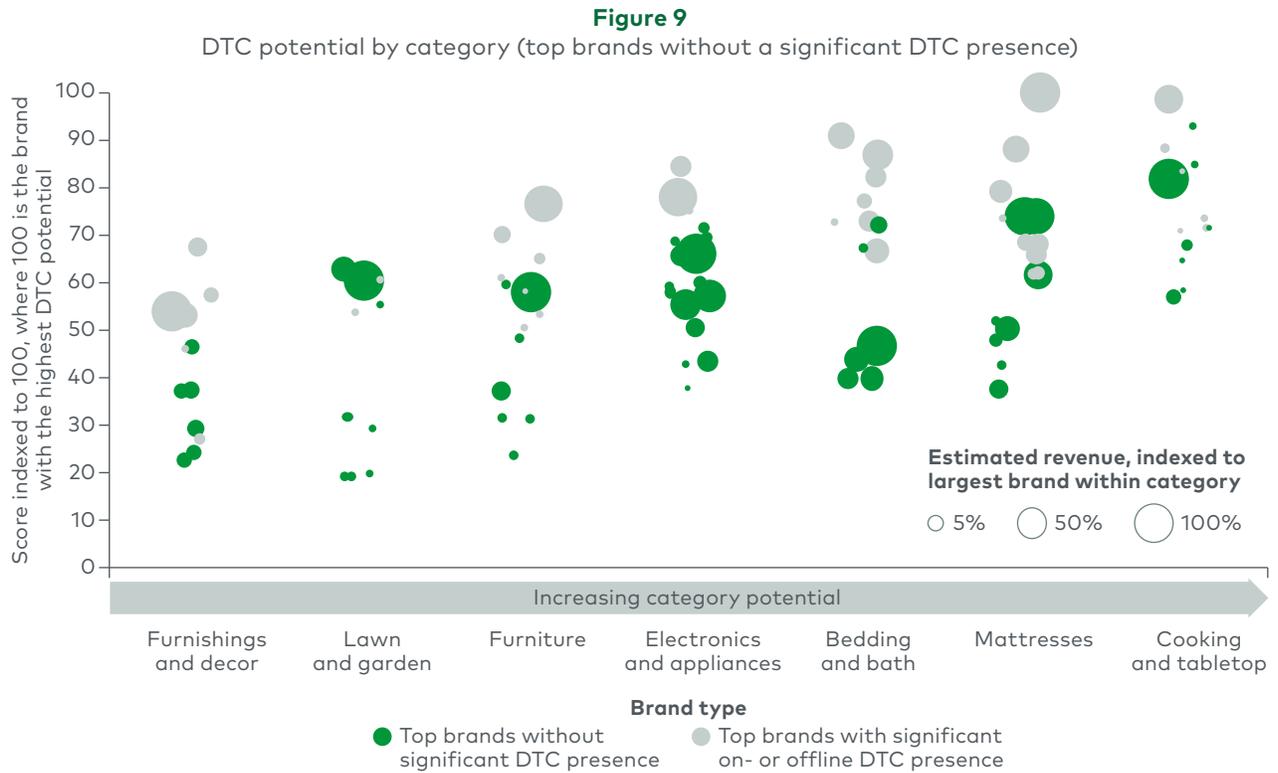


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 Source: L.E.K. research and analysis

What about traditional brands that don't have a significant DTC presence? Some have lower baseline potential because of their value positioning and brand differentiation. Still, a notable number of brands of all sizes have aspects of their business that put their DTC potential at or above their category baseline (see Figure 9). These brands will need to understand the assets and capabilities they have for building a material DTC business and weigh the costs alongside other strategic growth priorities.

Playing to brand strengths in DTC

DTC is an increasingly crowded space in the broader consumer sector. But the home segment remains less saturated than others (think apparel, travel accessories or beauty products), especially considering the magnitude of consumer spend relative to the number of DTC brands in the market. By understanding the impact of category differences, consumer dynamics and



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Source: L.E.K. research and analysis

the brand landscape, home furnishings manufacturers and brands can develop a DTC strategy suited to the opportunity size for the business and, in turn, right-size their DTC investments.

If we can be helpful, whether as a sounding board or in a more formal capacity of building a DTC strategy, please don't hesitate to contact us at strategy@lek.com.

Endnotes

¹Lek.com, "Using Marketplaces To Cement Online Success in Furniture and Homeware." https://www.lek.com/sites/default/files/PDFs/2337_Home-Furnishings-Marketplace-El.pdf

²Insiderintelligence.com, "US Retail Ecommerce Sales, by Product Category." <https://www.insiderintelligence.com/chart/261504/us-retail-ecommerce-sales-share-by-product-category-2023-2027-of-total-retail-ecommerce-sales>

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Chris Randall is a Managing Director and Partner in L.E.K. Consulting's Boston office and serves as Global Co-Head of the firm's Consumer practice. Chris has extensive experience in footwear and apparel, sporting goods, home and household products, and other durable goods. He advises retailers and brands on a range of critical issues, including growth strategy, brand and marketing strategy, channel strategy, digital strategy, data analytics, organizational strategy, and M&A.



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