

AN FTI CONSULTING REPORT – JULY 2025

# 2025 U.S. Online Retail Report

As the Endgame for E-Commerce Draws Closer,  
DTC Strategies Are Evolving



# An Endgame for the Epic E-Commerce Era? It's Closer Than You Think

As adaptable as modern humans can be to sudden or profound changes in circumstances or environment, especially in trying times, most of us are creatures of habit, comfort and familiarity. We are reminded of this tendency as the routine of our daily lives continues to revert to pre-COVID behaviors.

Dr. Anthony Fauci famously suggested during the height of the COVID-19 pandemic that people should never shake hands again, and for a while that seemed like sensible advice. Not a chance today, as bro hugs and business handshakes are again the norm. Five years after the COVID-19 virus upended our lives and lifestyles, it is hard to discern any aspect of our everyday routines that remains altered by the pandemic or its remnants other than some remote work flexibility.

This habit reversion includes online shopping, which was a huge beneficiary of the pandemic but now is moving along the path it would have traversed with respect to its market share of U.S. retail sales. That might be surprising to hear. In hindsight we recognize that COVID-19 mostly had a pull-forward effect on online shopping, converting reluctant holdouts to the channel sooner than they would have otherwise, while increasing others' reliance on the channel during the pandemic. But these COVID conversions would have happened in time, just not as soon, while the already-converted resumed their store shopping habits (however diminished they had become prior to COVID) once the pandemic had passed. Consequently, while U.S. total retail sales, including online sales, have soared since COVID-19, overall e-commerce market share is back on its pre-COVID trajectory after a multi-year detour.

The final destination for e-commerce market share within the larger retail ecosystem will be determined by factors having little to do with momentary disruptions — even a pandemic — as post-COVID data and trends indicate.



U.S. retail sales from 2020-2024 were \$2.4 trillion above our pre-COVID expectations, but 40% of that sales windfall was attributable to inflation



Inflation-adjusted U.S. retail sales growth (YoY) has been marginally positive or slightly negative since 2023, meaning that inflation has accounted for nearly all nominal sales growth in that time

### U.S. Retail Sales Since COVID: More Than Expected, But Less Than Meets the Eye

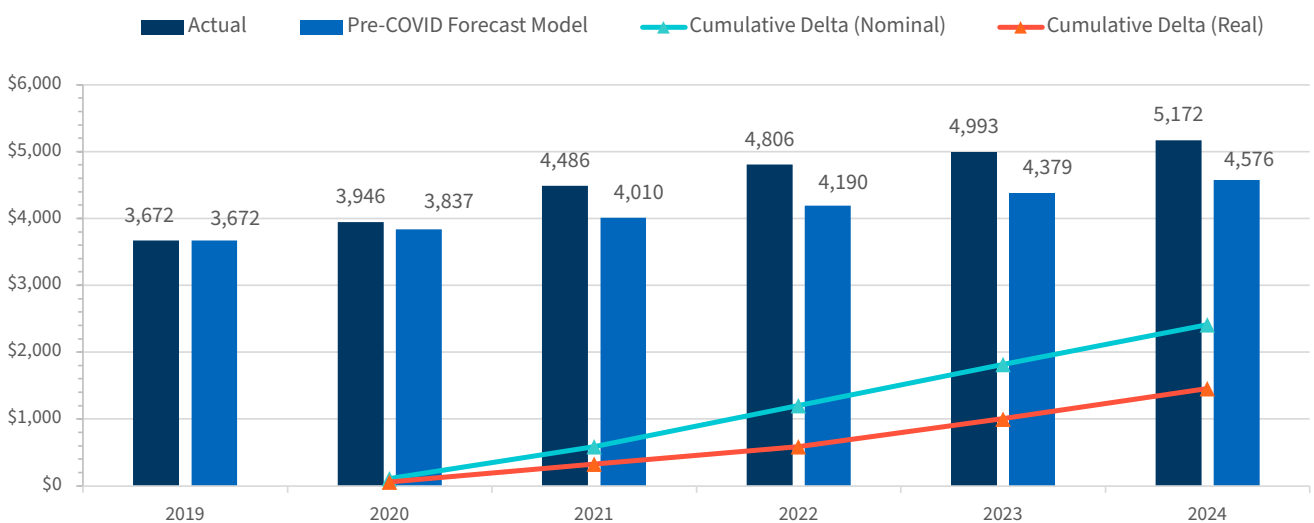
The COVID-19 impact on the domestic economy undoubtedly was a huge windfall for consumer spending, e-commerce and omnichannel retailers in terms of nominal dollars spent on retail goods. Certainly the COVID-19 virus prompted shoppers’ migration to the online channel due to mandated lockdowns, self-imposed isolation and store avoidance in much of the country during the spring and summer of 2020, but the unprecedented surge in retail spending in 2020-2021 was also attributable to massive government-directed financial relief provided during COVID-19, a personal savings boost from stay-at-home living conditions, and redirected consumer spending towards retail goods and away from services/experiences throughout the COVID-19 period. With most of the country vaccinated by late 2021, a semblance of pre-COVID lifestyles resumed by early 2022, including store-based shopping.

We continue to emphasize the unpopular talking point that the U.S. economy was overstimulated during the COVID-19 period through the end of 2021 and this mostly contributed to the consumer spending surge as well as the ensuing bout of high inflation, which kicked into gear by late 2021.

U.S. retail spending in the post-COVID period of 2022-2024 can be characterized as resilient considering the big shopping spree that consumers indulged in during COVID. Nominal (i.e., not inflation-adjusted) aggregate spending growth on retail goods has not contracted since posting record gains in 2020-2021 even as these stimulative forces dissipated. Certainly, nominal retail sales growth has since slowed notably from unsustainably strong growth rates in 2020-2021 but it has yet to contract, instead continuing to build modestly on top of record sales volumes in the COVID-19 period even as Fed monetary tightening drove interest rates higher and COVID-related financial relief was exhausted.

All told, we estimate that *cumulative* nominal retail sales (excluding auto & gas) in 2020-2024 were \$2.4 trillion greater than they would have been over this five-year period had pre-COVID trends persisted. This cumulative five-year spending boost for U.S. retail sales is 11.5% more than our pre-COVID forecast model expected over the same period (**Figure 1**). *This equates to an average annual nominal sales growth rate of 7.1% in 2020-2024 versus our pre-COVID forecast of 4.5% annually, which was consistent with nominal retail sales growth from 2014-2019 — representing a significant and prolonged uptick from historical norms.*

**Figure 1 – U.S. Retail Sales (ex. Auto & Gas)**  
(nominal sales in billions)



Source: U.S. Census Bureau, FTI Consulting Analysis

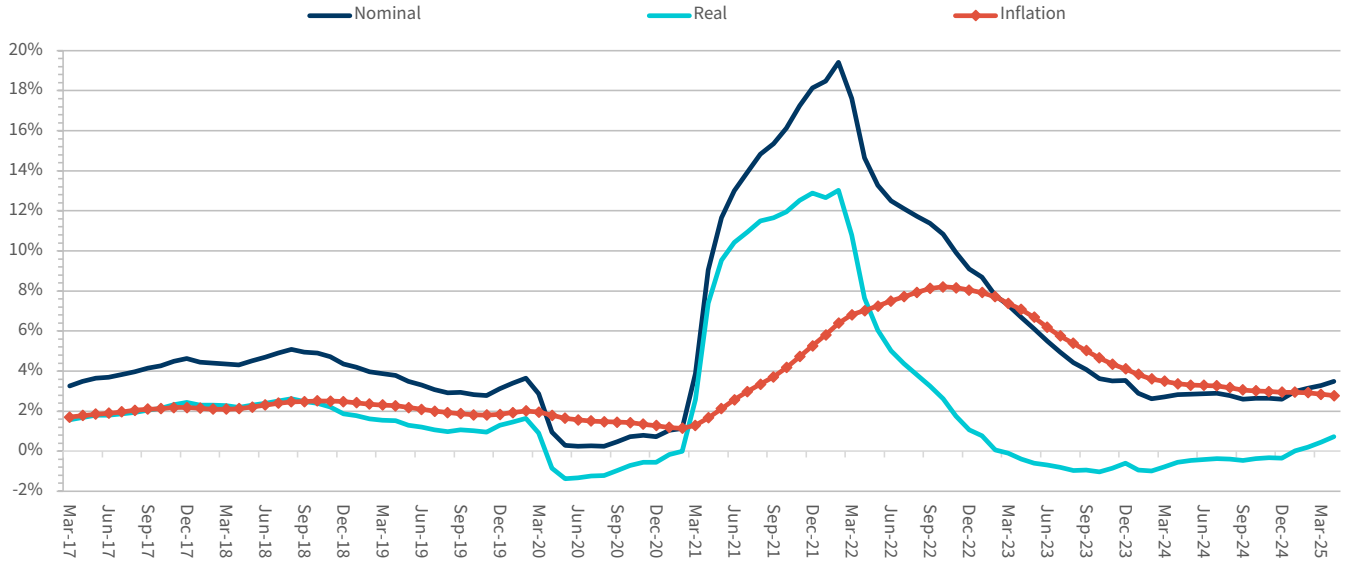
However, nominal retail sales growth figures are misleading, as high inflation accounts for a large share of retail sales growth since mid-2021. These sales gains are considerably less impressive once adjusted for inflation (i.e., real growth), with real sales growth since late 2022 consistently trending below a pre-COVID average real growth rate of approximately 1.5%-2.0% (YoY), and running marginally negative or negligibly positive in 2023-2024 after adjusting for inflation (**Figure 2**). Inflation accounted for 40% of the aforementioned \$2.4 trillion cumulative spending boost since 2020. There has been great progress on the inflation front since 2022, with the inflation rate for retail goods peaking at 8.2% (YoY) in late 2022 before gradually easing to 2.7% in 1Q25 — though still higher than the pre-COVID inflation rate of approximately 2.0% (**Figure 2**).

But this easing of inflation also has coincided with a notable slowdown in retail spending as shoppers redirected some outlays back to services/experiences

while also depleting the remainder of their COVID-related financial windfalls. *Ironically, real retail sales growth peaked in 2021-2022 as high inflation raged but has nearly flatlined since 2023 as inflation subsided* (**Figure 2**). In short, while consumers have continued to increase their spending, inflation has accounted for nearly all nominal retail sales growth since early 2023 as the retail sector struggles to generate any meaningful real sales growth. However, with inflation continuing to trend lower, real retail sales growth ticked up into positive territory in 1Q25.

Lastly, consumers have cooled their discretionary spending since April as their domestic economic concerns have ratcheted higher around tariffs and trade policy, higher inflation expectations, a slowing jobs market and rising geopolitical tensions. Given these mounting worries on consumers' minds, prospects for their spending appetite in the second half of the year are subdued.

**Figure 2 – U.S. Retail Trade & Food Services Sales**  
(monthly YoY change)



Source: U.S. Census Bureau, FTI Consulting Analysis

### E-Commerce Market Share Ceiling is in Sight Five Years After COVID Boost

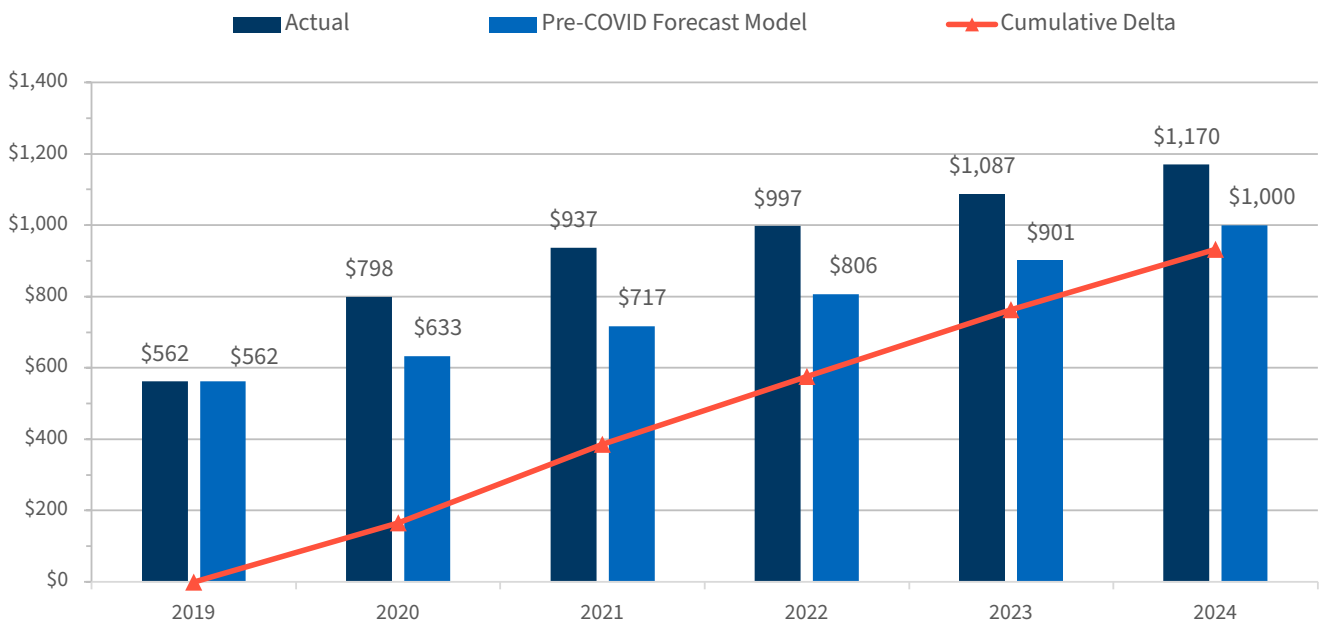
The 20-mile mark of a marathon is the point when runners are said to “hit the wall,” where the body’s ability to exert begins to break down and the runner’s determination and mental toughness help to overcome physical exhaustion and propel them to the finish line. U.S. e-commerce soon will be at the 20-mile mark of its marathon, having covered most of its long journey. The finish line is approaching but still elusive, while ongoing efforts to keep moving will produce positive but diminishing results.

There are three parameters by which we gauge the state of online retailing: e-commerce sales dollars, sales growth rate (YoY) and market share of corresponding U.S. retail sales — and they are giving off mixed signals at the moment. By the first measure, U.S. e-commerce sales volume continues to perform exceptionally well, reaching \$1.17 trillion in 2024. We pointed out in our previous report that U.S. online sales topped the \$1 trillion mark in early 2023, nearly two years sooner than our pre-COVID forecast model had projected, and the online channel has continued to build on those gains.

This outperformance for e-commerce sales is mostly attributable to the surge in nominal retail sales since 2020 which, as discussed earlier, was mainly attributable to a confluence of financial forces that boosted household income and spending of many Americans during and after COVID. The pandemic redirected much of this stepped-up buying from stores to the online channel, which has held these sales gains since COVID-19 ended. Consequently, annual e-commerce sales will remain significantly greater than they would have been had COVID-19 never happened thanks to a remarkable spending spree by Americans that began during COVID and hasn’t yet retreated.

Cumulative e-commerce sales from 2020-2024 were \$932 billion more than they would have been under our pre-COVID forecast model during this five-year period (Figure 3), or 23% greater vs. model — twice the 11.5% excess gain vs. model for overall retail sales during this period. This relative outperformance by e-commerce compared to overall retail sales is intuitively understood given the heavy lift done by the online channel in 2020-2021 and moderating gains that followed in 2022-2024.

Figure 3 – U.S. E-Commerce Retail Sales (in billions)



Source: U.S. Census Bureau, FTI Consulting Analysis

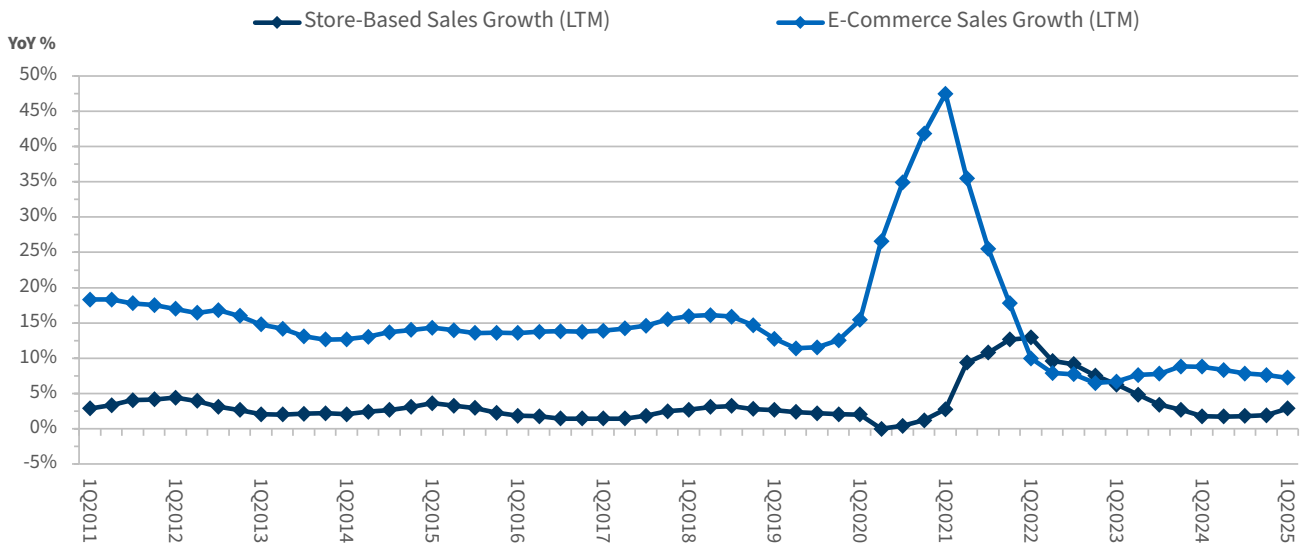
However, U.S. e-commerce sales growth (YoY) has slowed notably in the post-COVID period, with growth decelerating to a high-to-mid single digit growth rate (YoY) since 2023, compared to a decade of consistent mid-teen growth from 2011-2019 (Figure 4). The days of steady double-digit sales growth (YoY) are over for e-commerce as the channel has transitioned to a mature phase where its sheer size precludes it from growing as fast as it consistently did prior to COVID-19.

Store-based sales growth enjoyed a brief comeback in late 2021-2022 as shoppers were happy to leave their houses again for any reason, but the revival didn't last long. E-commerce sales growth started to pick up again in 2023 but that momentum has stalled and sales gains for the online channel have slowed over the last year (Figure 4). It seems very unlikely that e-commerce sales

gains will again see a double-digit growth rate under normal economic conditions.

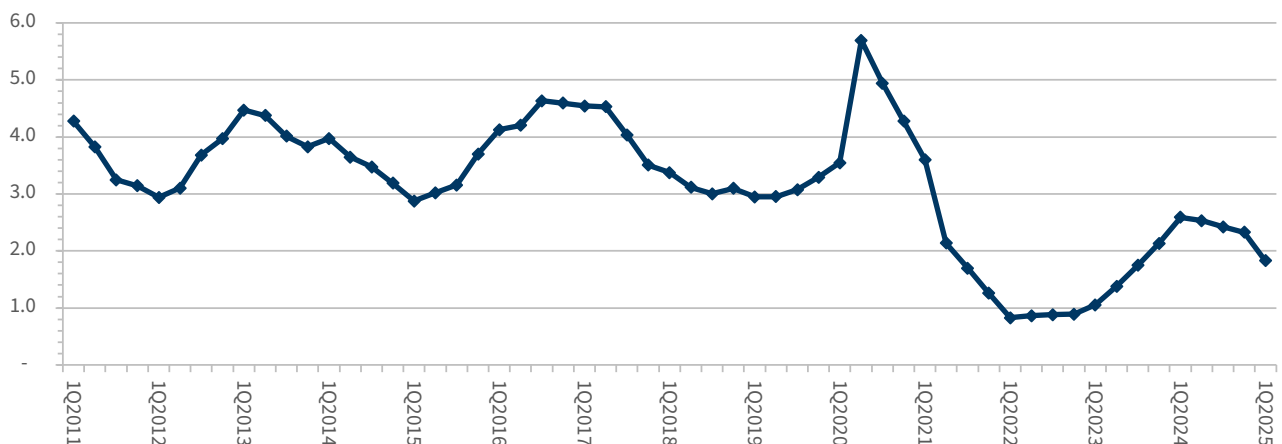
Nonetheless, relative e-commerce sales growth still handily exceeds store-based sales growth by a factor of close to 2X compared to 3X-4X prior to COVID (Figure 5), meaning that the online channel continues to punch above its weight and take retail market share, but at a slowing rate. To state this in more basic terms, e-commerce is capturing just over 40% of corresponding retail sales growth (LTM) in 2025 yet accounts for a 22.5% share of total retail sales, so it is capturing retail sales at a rate that is nearly twice its relative size. However, this ratio has declined for four consecutive quarters (Figure 5). As long as this ratio remains above 1.0, the online channel will be taking market share from stores.

Figure 4 – Retail Sales Growth vs. E-Commerce Sales Growth






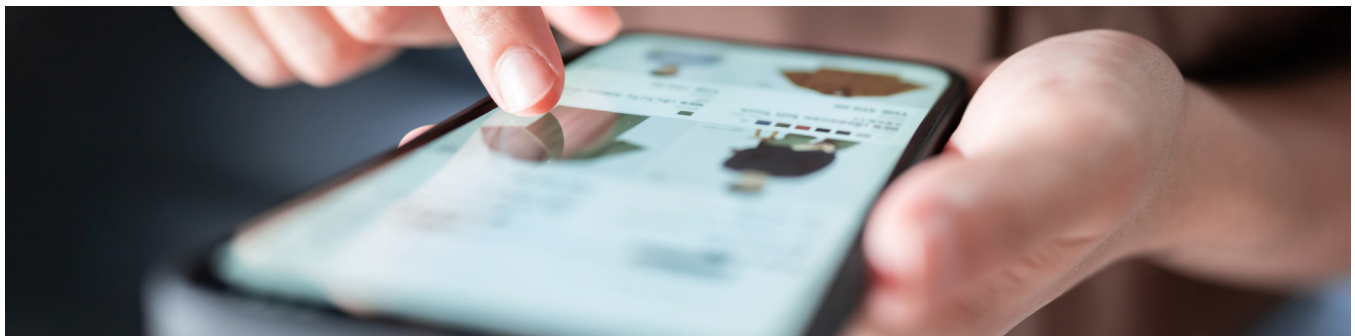
Source: U.S. Census Bureau, FTI Consulting Analysis

Figure 5 – E-Commerce Share of LTM Retail Sales Growth/Estimated E-Commerce Market Share



Source: U.S. Census Bureau, FTI Consulting Analysis

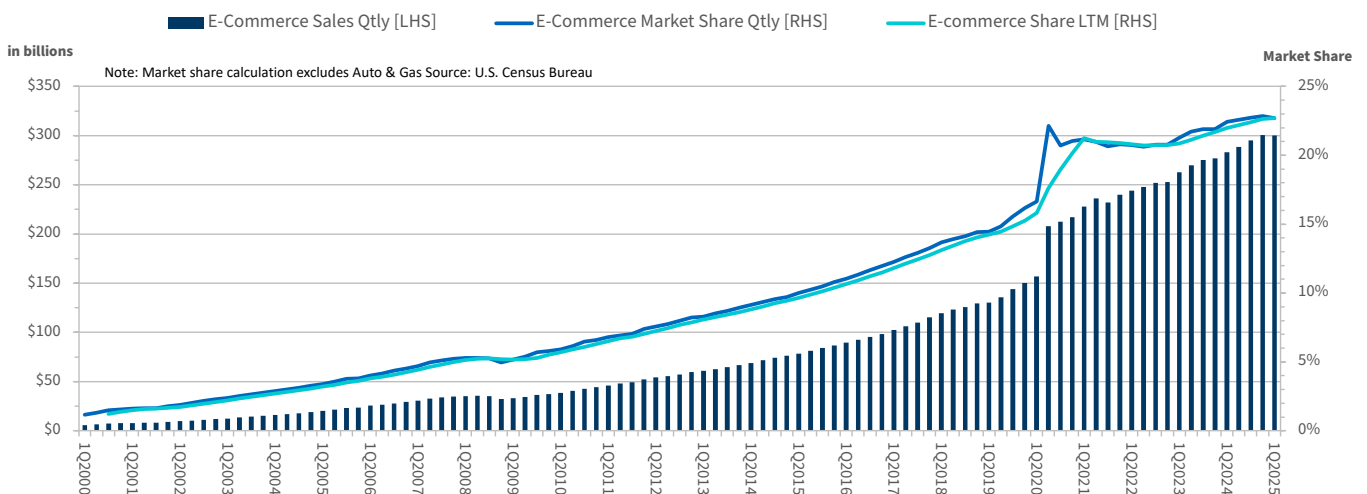
 <p>Online sales will grow <b>8.5%</b> in 2025 to <b>\$1.27 trillion</b></p>	 <p>E-commerce market share to hit <b>23.5% in 2025</b>; projected to plateau near <b>30% by 2030</b></p>	 <p>E-commerce market share gains are now less than 100 basis points annually and will continue to decelerate</p>
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The most compelling evidence that the nearly three-decade journey of e-commerce is approaching a final phase is its market share of corresponding retail sales, which is on a glide path toward a ceiling that was estimable prior to COVID-19 but was thrown off course by the pandemic and its aftermath (**Figure 6**). E-commerce picked up nearly 500 basis points of market share in 2020, or the equivalent of more than three years of normal market share gains, only to stagnate from 2021-2022 as consumers swarmed stores again once they were vaccinated. Annual market

share gains for e-commerce have resumed since 2023 but are diminished, having dropped to 85 basis points in 2024 compared to a pre-COVID peak of 135 basis points in 2018. E-commerce market share currently sits near 23% of corresponding retail sales compared to approximately 16% at the end of 2019, with most of these gains coming in 2020. Market share gains for the online channel will continue to diminish steadily until they become negligible and a natural ceiling is reached. This marathon is not over yet, but the final result is accurately projectable.

**Figure 6 – U.S. E-Commerce Retail Sales and Market Share**  
(seasonally adjusted)



Source: U.S. Census Bureau, FTI Consulting Analysis

## Retailers Confront High Uncertainty on Several Fronts as Prime Day Approaches

Retailers face a host of uncertainties as this year's Prime Day approaches — more than usual — including multi-year lows for consumer confidence across demographic, political, and income cohorts, lingering tariff and trade policy uncertainties and their attendant supply chain and inventory impacts, concerns of renewed inflationary pressures and escalating geopolitical tensions. There are few noteworthy positives to speak of other than the general resilience of the domestic consumer economy to date under these fraught conditions.

The dangling issue of reciprocal trade tariffs hangs over the retail sector and other domestic industries as we write this. Posted tariff rates by country on “Liberation Day” were highly punitive and could inflict real harm on the global economy and domestic consumption, and could reignite inflationary forces that finally are coming under control, should they go into effect. A final determination of reciprocal tariffs on U.S. imports has not yet been made by the Trump administration, and the two 90-day pauses with most impacted countries and China are set to expire on July 8th and August 12th, respectively, with some indication from Treasury Secretary Bessent that these pauses could be extended on a country-by-country basis. A temporary 10% universal tariff on imports has been in place since the pauses were announced in mid-April, except for China, which is subject to a 30% tariff currently. There are also 25% import tariffs in place on domestic industries targeted for protection, such as autos, steel and aluminum.

Despite lingering uncertainties around final tariff resolution, financial markets decided by mid-April that they aren't going to happen, at least not as advertised. Call it the TACO trade at your peril, but investors don't believe that reciprocal tariffs will be finalized anywhere near their posted tariff rates on April 2nd. Markets expect a few trade deals will be announced that will give the President sufficient cover to declare victory and back off posted tariff rates, perhaps settling on a permanent 10% universal tariff for most countries, which would sting but will be manageable for most importers and consumers, and perhaps would avert a global economic downturn. Anything higher than that baseline tariff rate on a broad number of countries or products could quickly become problematic for domestic economic growth.

One tariff outcome of particular interest to retailers is the elimination of the de minimis exception for duties on cheap imported goods from China and Hong Kong, which was announced by the White House in April.<sup>3</sup> The de minimis exception has evolved over time to become a loophole that allows low priced products (<\$800) shipped to U.S. customers by foreign sellers to be duty-free. A recent Congressional report indicated that global exports from China of such low-priced goods shipped in single packages had ballooned to \$66 billion in 2023 from \$5 billion in 2018, while total U.S. imports of goods under the de minimis exception were estimated at \$55 billion in 2023, of which nearly \$20 billion came from China.<sup>4</sup> In early May, the elimination of the de minimis exception became effective for goods shipped from China and Hong Kong via the international postal network or



comparable private carriers, and currently such goods are subject to a 30% import duty or a flat rate per item.<sup>5</sup> Two Chinese-based global retailing giants, Temu and Shein, have benefited tremendously from the de minimis exception and have become hugely popular with U.S. shoppers in recent years. Even if tariff rates are reduced, the permanent elimination of the de minimis exception for Chinese exports still would drive up selling costs, often significantly, for these direct-to-consumer (DTC) producers and could benefit competing U.S. retailers to the extent that consumer demand for DTC imports falls and gets redirected to domestic retailers instead. We're talking many billions of dollars at stake, mostly in the fashion apparel, home goods and beauty categories. Chinese exporters of such goods are scrambling to source and ship goods from other countries, and it is still too soon to see any notable impact from the elimination of the de minimis exception for China on the U.S. retail sector. Moreover, a previously announced elimination of the de minimis exception for Mexico and Canada in February was put on hold and remains unresolved. Some in Congress are unhappy with the generous de minimis exception generally. The biggest impediment to ending or changing the de minimis exception more broadly is the lack of systems and personnel at CBP that could process packages and collect duties on such enormous volumes of goods. Stay tuned.

The economic backdrop has rarely mattered much for Prime Day, which has evolved into an industrywide event among many large omnichannel retailers, who offer competing events to coincide with Prime Day rather than concede those spending dollars to Amazon. Historically, July has been a “meh” month for retailing, and the arrival of Amazon Prime Day in 2015 along with competing sales events in recent years has injected some brief excitement into an otherwise uninspired month for retailers. Prime Day events are not akin to Black Friday type deals; they are narrower in scope, with promotions generally targeting select products or product categories. The whole store isn't on sale and it isn't a “make or break” event for anyone. But it has become a summertime mini-spectacle that reminds us just how super-competitive the retail sector is. Amazon has extended this year's Prime Day event to four days, twice the length of previous events, upping the stakes even further for retailers.

Over the years, sales gains attributable to Prime Day events have handily outpaced sales growth for discretionary retail goods generally in the time periods

*“If prices rise on consumer impulse purchases due to the repeal of the de minimis exception for low-priced imports, consumers may quickly cut back or redirect that spending—these are price-sensitive categories where even small increases can change buying decisions.”*

— JEFF WRAY

U.S. Leader of Retail & Consumer Products,  
FTI Consulting



preceding and following Prime Day, and this year should be no different. Given the slower pace of nominal retail sales gains in recent months — around 4.0% (YoY) — Prime Day events should generate sales growth nearly twice that — in the high single-digits, slightly below last year’s 11% gain, according to Adobe Analytics, which estimated total U.S. online sales of \$14.2 billion during the two-day event in 2024.

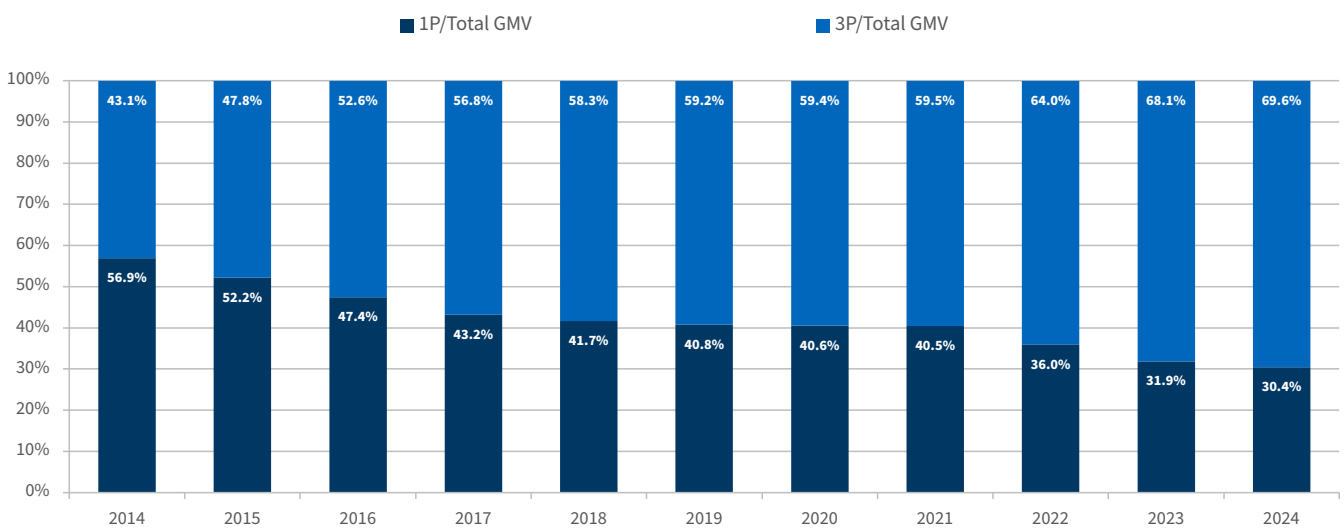
Prime Day used to be an opportunity for Amazon to sign up new Prime members, but with an estimated 125 million domestic members already, it seems that most of its addressable audience is already on board and new member growth potential is limited. So Amazon will have to sell more stuff to a huge captive audience, which is probably easier than it used to be, as most Prime shoppers are familiar with the timing of Prime Day after a decade and might even set aside a budget for the event.

Amazon continues its transition, emphasizing third-party (3P) sellers over first-party (1P) sales, a shift that began a decade ago. We estimate that 3P accounted for nearly 70% of Amazon’s \$810 billion of global retail Gross Merchandise Value (GMV) in 2024 compared to 43% a decade earlier — a trend that has steadily increased since 2014 (**Figure 7**). 3P sellers essentially pay Amazon a sales commission for a presence on the Amazon Marketplace platform, providing sellers with access to millions of

Amazon shoppers. (3P sellers can also let Amazon carry inventory and ship orders for additional fees (Fulfillment by Amazon), or instead handle these functions themselves and just pay for a Marketplace presence.) Its growing reliance on 3P effectively makes Amazon more of a consignment retailer that takes a cut of the sale rather than a conventional retailer that purchases, stocks and sells its own merchandise. It is a commission they earn simply for giving sellers exposure to a few hundred million faithful Amazon shoppers that often make the site their first online destination. Some 3P merchants may grumble about Amazon’s healthy commission rates or its tendency to create knock-off versions of hot selling 3P merchandise but apparently these gripes are not dissuading sellers from listing on Amazon, as 3P is larger than ever within the Amazon ecosystem.

Sometimes overlooked in the discussion of Amazon’s formidable position within e-commerce is that 3P sellers typically are independent retailers and small businesses that could never reach such a massive audience without Amazon Marketplace. Many 3P sellers are also online sellers, without stores or audience reach, and a presence on Amazon Marketplace is a portal to another world. Given these trending 3P metrics, a business relationship and placement with Amazon remains a symbiotic arrangement.

Figure 7 – Amazon’s 1P/3P Breakout of E-Commerce Sales



Source: SEC Filings, FTI Consulting Analysis



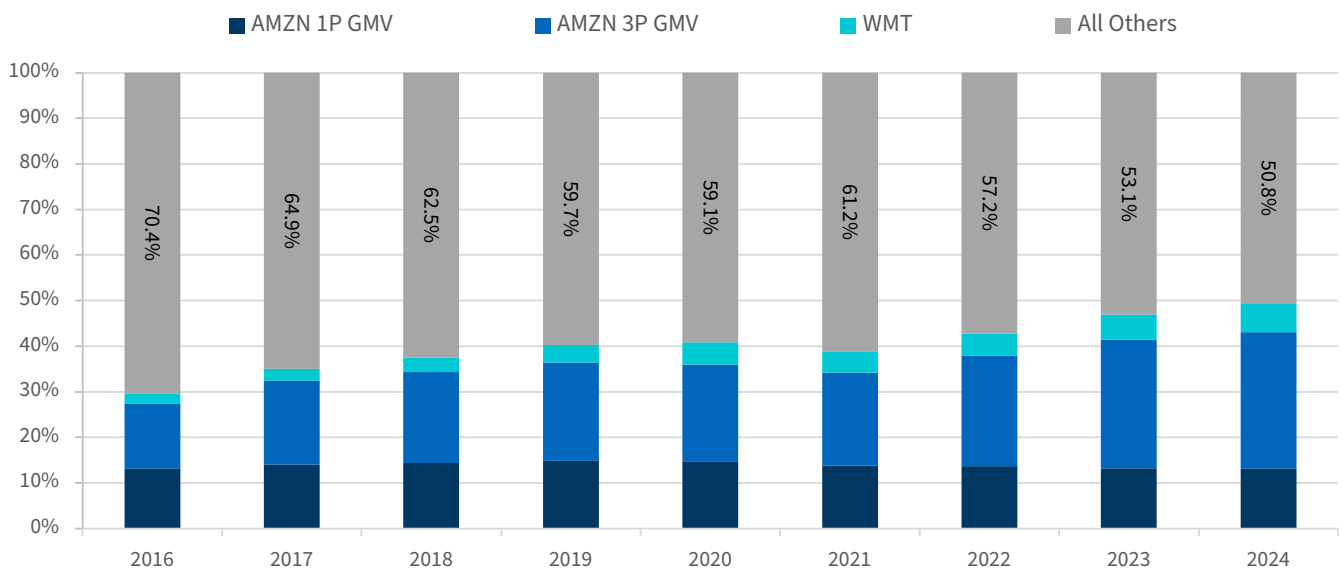
Amazon’s share of U.S. e-commerce sales continues to edge higher due entirely to its growing 3P business. We estimate that Amazon had a 43% share of domestic online sales last year, with 13% coming from 1P and 30% from 3P. In fact, Amazon’s 1P market share has declined from nearly 15% in 2019. Walmart has stepped up its e-commerce results in recent years, with its U.S. online sales growing at 20%+ in each of the last two years, and more than tripling to \$79 billion last year compared to \$24 billion in 2019. Its market share of online sales has improved to 6.8% from 4.3% in that time.

U.S. e-commerce results excluding Amazon and Walmart have been less impressive, with a collective market share of 51% in 2024 compared to 60% in 2019, and annual sales growth in the low single digits in 2023 and 2024. Omnichannel retailers, even the larger ones, will

be challenged to make significant gains online, given how settled the landscape has become in the aftermath of COVID. Smaller upstarts aspiring to be digitally native brands will have to find unique ways to cut through the online clutter and find their audience (see our section on How DTC Brands Are Rewriting the Playbook). Moreover, as Amazon’s scale and influence on retailing grows, it becomes harder for independent sellers not to become part of that orbit. Amazon continues to benefit from its network effect.

Overall, as e-commerce market share approaches a ceiling at the end of the decade, additional market share gains will become ever smaller, and the online channel increasingly will become a near zero-sum game for its constituents.

Figure 8 – Estimated Share of U.S. E-Commerce Sales



Source: SEC Filings, FTI Consulting Analysis

### U.S. Online Retail Forecast: Our Trims Reflect Slowing Online Momentum

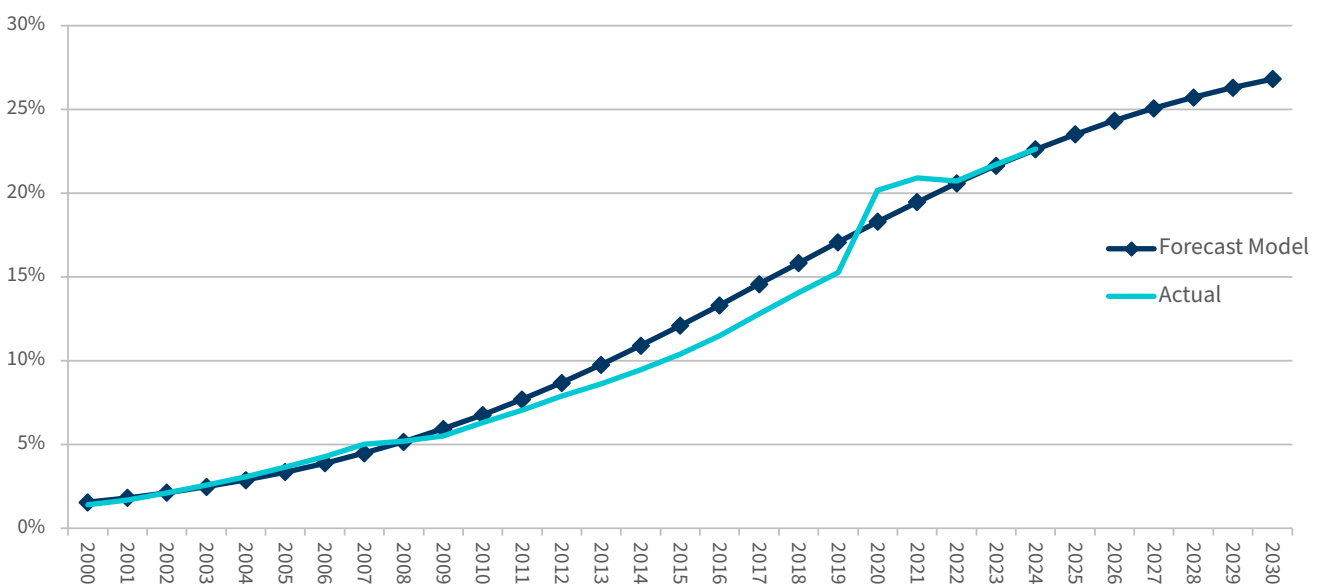
E-commerce performance metrics deviated notably from our forecast model during COVID and in the years bookending the COVID years (Figure 9). This proved to be a transitory aberration and the recent trajectory of e-commerce market share puts it squarely back on path. This is reassuring and affirms the appropriateness of the logistic growth curve that underlies our forecast model, which recognizes and quantifies inherent limits of uninhibited growth in most “real life” applications. The appeal and elegance of a logistic growth model is defined by its symmetry around its inflection point, which posits that if you have observed half of the curve, you can forecast the other half with a high degree of confidence. With U.S. e-commerce market share approaching 75% of its projected ceiling, the likelihood of a material deviation from this path going forward is remote, assuming no other “Black Swan” events occur.

That said, our forecast for U.S. online sales growth and market share in 2025 and the rest of the decade is relatively uneventful. The action-packed chapters of the e-commerce saga are very likely behind us as it proceeds towards a denouement. E-commerce sales will hit \$1.27 trillion in 2025, an 8.5% increase (YoY) and a market share increase of 86 basis points. U.S. online market

share of corresponding retail sales will reach 23.5% by year end on its way to an ultimate ceiling of 30%, which will be within close distance by the end of the decade (Figure 9). Our slight downward revisions to expected e-commerce sales growth rates and market share gains beyond 2025 and our previous market share ceiling of 35% reflect a periodic recalibration of the model’s logistic equation to best fit the historical data.

We emphasize that this market share forecast is for the U.S. e-commerce channel as a whole and market share estimates and ceilings for constituent product categories can differ significantly. High penetration categories for online market share, such as apparel, toys, and sporting goods, already have market shares well above the overall e-commerce share of 23% — closer to 40% or more in some cases — while online share for grocery hovers closer to 10%. Each product category has its own unique e-commerce growth and market share trajectories, which we have shown in previous reports.<sup>6</sup> But in the aggregate it shakes out to 30% — which is a sizeable chunk of retail sales claimed by e-commerce this century — much of it by omnichannel retailers — but not nearly as large as some pundits were predicting in the heady growth years for the channel when massive numbers of store closures were expected. The sky isn’t falling for store-based retailers, nor is the sky the limit for e-commerce.

Figure 9 – E-Commerce Market Share of U.S. Retail Sales



Source: U.S. Census Bureau, FTI Consulting Analysis

# The New Era of Online Retail: How DTC Brands Are Rewriting the Playbook

Over the past decade, online retail has transformed dramatically. What started as a revolution in how brands reach consumers — bypassing traditional retail to build direct relationships — has now matured into a more complex, omnichannel world.

To foster growth, brands are adapting, evolving, and, in many cases, embracing the very retail partnerships they once sought to avoid. Shoppers' excitement around Prime Day, and the revenue boost it brings to retailers, is evidence that the old models of DTC aren't enough on their own anymore.

This evolution marks a critical moment for online retail. It's no longer just about who owns the customer relationship; it's about who can deliver value across every channel the consumer chooses to shop.

## The Rise (and Stall) of DTC

DTC brands excelled by disrupting the traditional retail model. Digital advertising made it possible to target customers at a relatively low cost. Brands like Warby Parker and Allbirds showed that the large, inviting, and costly footprints of department stores were no longer a pre-requirement to build a billion-dollar business — brands only needed a sleek website, clever branding and a good product.

The DTC boom accelerated with the pandemic as consumers leaned into a remote life that shifted even more shopping online. Venture capitalists poured money into the sector, seeing success in funding startups across fashion, beauty, home goods and more.

This growth came at a cost. As more brands crowded into digital channels, customer acquisition costs (CAC) soared. The easy days of low-cost Facebook and Google ads faded. Consumers became overwhelmed with choice and increasingly sought out experiences that pure e-commerce couldn't provide.

Meanwhile, venture capital began to dry up, especially for unprofitable businesses. Notably, a significant share of DTC start-up funding — \$3.4 billion out of \$4.9 billion — was concentrated in just four companies: Thrasio, Perch, Benitago and Elevate Brands.<sup>7</sup> All four built their business models around acquiring and scaling Amazon FBA brands — independent sellers who leverage



Amazon's fulfillment network to reach customers. While these aggregators attracted massive investment betting on the continued growth of Amazon-centric commerce, the broader DTC funding landscape beyond them remained much thinner.

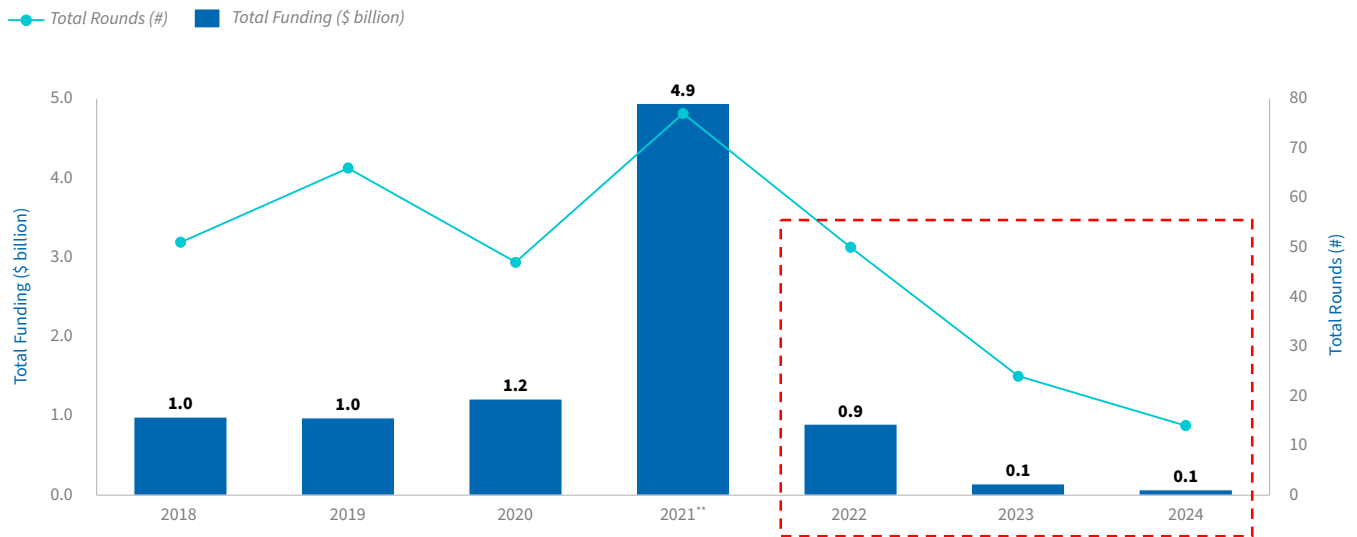
Over the past few years, several headwinds have converged:

- **Saturation:** Too many brands, not enough consumer attention.
- **High CAC:** Digital advertising became expensive, compressing margins.
- **Behavioral Shifts:** Post-pandemic consumers crave both digital and in-person experiences.
- **Funding Pressures:** Investors now prioritize profitability over growth-at-all-costs.

Today, the pure-play DTC model — once seen as the future — faces real challenges.

Figure 10 – Where the Money Went: DTC Funding Concentration in Aggregators

Funding to U.S. DTC Start-Ups\*



### Key DTC Business Model Challenges

- Stagnant growth, given market saturation**
- Increased customer acquisition costs (CAC), given competition in digital advertising space**
- Shift in consumer behavior post-pandemic, towards experiences and ability to try products**
- Venture capital pullback across industries is making it challenging for unprofitable DTC companies to stay afloat**

### Top 3 categories of DTC businesses attracting VC funding:\*\*\*

- Fashion (24%)**
- Beauty (12%)**
- Marketplaces (11%)**

(\*) Any rounding type, any investor, U.S.-based companies in the intersection of consumer goods and e-commerce industries  
 (\*\*\*) 4 companies (Thrasio, Perch, Benitago Group and Elevate Brands – DTC portfolio companies and e-commerce aggregators) represent \$3.4 billion of \$4.9 billion funding  
 (\*\*\*) Excluding total funding received by the 4 aforementioned companies

Source: Crunchbase,<sup>8</sup> FTI Consulting Analysis

Consumers Still Love DTC — But Want More

Despite the struggles of DTC brands, consumer demand hasn't disappeared, but has evolved justly.

Consumers still appreciate:

- **Value:** Competitive pricing by cutting out middlemen.
- **Convenience:** Seamless online ordering and direct delivery.
- **Personalization:** Tailored recommendations and niche products.
- **Authenticity:** Brands that stand for something resonate, especially among Millennials and Gen Z.

Social media remains a powerful discovery engine, with platforms like TikTok and Instagram helping new brands go viral overnight. Consumers are also more likely to support brands that align with their personal values — sustainability, inclusivity, transparency — areas where many DTC brands excel.

Increasingly, shoppers expect brands to meet them where they are — whether that's online, in-store, or somewhere in between. DTC brands that once thrived by focusing only on e-commerce must now diversify their approaches to sustain growth and deepen customer relationships.

## Three Paths Forward: How DTC Brands Are Adapting

Faced with slowing growth and rising costs, DTC brands are exploring new ways to reach consumers and drive profitability. Three key strategies have emerged: customer relationships.

Figure 11 – Three Growth Paths for Scaling Beyond Pure DTC



Source: Retail Dive,<sup>9</sup> FTI Consulting Analysis



### 1. Owned and Operated Retail

Opening physical stores may seem counterintuitive for digital-first brands, but it offers control over the customer experience, pricing and brand presentation. Physical retail builds trust and deepens loyalty in ways that online interactions often cannot.

Of course, retail expansion isn't easy. It requires significant upfront investment, operational complexity and careful strategy regarding store locations, sizes and staffing models. But for DTC brands looking to scale beyond \$300 million in revenue, retail is becoming a necessary pillar.

*Case: Warby Parker,<sup>10</sup> founded online in 2010, opened its first physical store in 2013. Today, Warby Parker operates over 270 stores across North America. Retail sales now make up 70% of its revenue, up from 54% a few years ago. While e-commerce sales have plateaued or declined slightly, physical stores are growing at over 20% annually — a clear sign that shoppers still crave in-person experiences.*

#### Strategic Questions for Brands

- What is the expected ROI on retail investments relative to continued DTC digital acquisition?
- How should we phase capital deployment to optimize store rollout and minimize risk?
- How do we model the break-even horizon for store profitability at different geographies and formats?
- What operational capabilities — supply chain, staffing, technology — must we scale alongside retail expansion?
- How should we re-balance DTC vs. retail channel contribution targets in our 3-year revenue and margin plans?



## 2. Wholesale Retail Partnerships

Another growth path is through partnerships with established retailers. Selling through trusted third-party stores offers instant exposure to new customers and leverages existing retail infrastructure — without the heavy lift of opening stores directly.

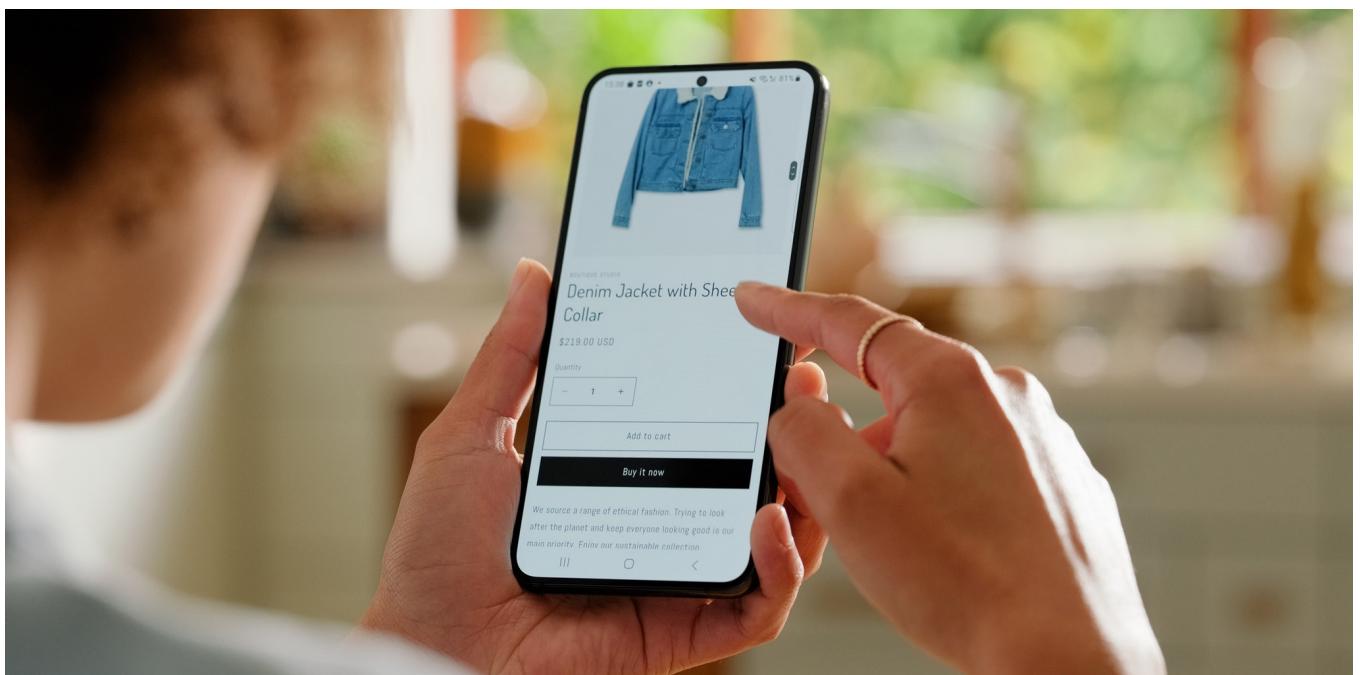
Wholesale provides access to customers who might not have found the brand online, supports working capital management, and can help build brand equity. However, it also reduces margins and limits brand control compared to DTC.

Interestingly, several companies — from fashion to footwear — are finding that wholesale channels can deliver better EBIT margins than direct e-commerce, thanks to economies of scale and lower acquisition costs.

*Case: Vuori, the premium athletic and leisurewear brand, has scaled rapidly through selective wholesale partnerships with Nordstrom, REI, Selfridges and others. Today, about 25% of Vuori’s revenue — on track to top \$1 billion annually — comes from wholesale.*

### Strategic Questions for Brands

- How do we select wholesale partners that align with our brand equity and long-term margin targets?
- What is the optimal wholesale penetration to complement our direct and retail channels without cannibalization?
- How should we structure wholesale agreements to protect pricing integrity and margin health?
- What organizational model and capabilities are needed to operationalize a B2B wholesale strategy at scale?
- How can we forecast and manage channel conflict risks across wholesale, retail and DTC in our P&L?





### 3. E-Commerce Marketplaces

Platforms like Amazon, Walmart.com and eBay offer DTC brands expansive reach and an efficient path to growth. For DTC companies facing rising customer acquisition costs on traditional digital channels, marketplaces are no longer viewed as a compromise, they are a critical part of a diversified strategy.

Third-party selling on Amazon, in particular, has exploded. Today, nearly 60% of Amazon's retail sales come from 3P sellers — many of them independent brands and emerging DTC companies. Prime Day itself has evolved into a massive showcase for these brands. In fact, recent years have shown that small and medium-sized businesses (SMBs) often outperform big legacy brands during Prime Day, thanks to nimble pricing strategies and a loyal customer base eager for discovery.

Marketplaces provide:

- **Expansive Reach:** Exposure to millions of shoppers already primed (pun intended) to buy.
- **Built-in Trust:** Consumers often trust marketplace logistics — fast shipping, reliable returns — more than individual brand websites.
- **Operational Support:** Fulfillment solutions like Fulfilled by Amazon (FBA) ease the burden of logistics, allowing brands to scale faster.

This year, Amazon Live is expected to play an even bigger role, helping brands capitalize on consumers' hunger for more interactive, real-time shopping experiences. Livestream shopping blends the entertainment value of social media with the convenience of e-commerce. This is helping brands tell their stories, showcase products authentically and drive urgency through limited-time Prime Day deals. For DTC brands, it's an opportunity not just to sell, but to connect and turn shoppers into loyal customers.

There are trade-offs with marketplaces. Marketplace fees erode profitability, putting pressure on margins. It's harder to control the customer experience and branding on third-party platforms and marketplaces, as these platforms and marketplaces, not the brands, own the customer relationship, making it harder to nurture long-term loyalty directly.

Yet, for brands willing to navigate these challenges, marketplaces — especially Amazon — offer an unparalleled growth engine, particularly around high-traffic events like Prime Day. Increasingly, the brands that win Prime Day aren't just the largest, they're the smartest at leveraging marketplaces while keeping their brand front and center.

*Case: Rothy's, the sustainable DTC footwear brand known for its recycled-plastic knit flats, launched in Amazon's Fashion Store in May 2024, offering key styles like "The Flat," "The Point," and men's loafers with Prime delivery. Rothy's CEO explained the move as a response to customer behavior — bringing its eco-friendly line to where shoppers already begin their journey, while maintaining consistency with its brand values.*

*Early indicators show this channel expansion isn't detracting from its omnichannel growth: in 2024, Rothy's reported 17% revenue growth to \$211 million, alongside same-store sales growth of 20%, and plans to add more Amazon-accessible products and physical stores in 2025.<sup>13</sup>*

#### Strategic Questions for Brands

- What is the revenue and margin contribution opportunity from marketplaces relative to direct and retail channels?
- How should we balance brand control with growth on marketplaces — and what guardrails must be in place?
- What investments in marketplace optimization (e.g., content, pricing strategy, Amazon Live) drive the highest ROI?
- How do we structure marketplace channel participation to protect long-term brand equity and customer data access?
- What capabilities (tech stack, analytics, operations) are required to build a defensible marketplace growth engine?



## The Omnichannel Imperative

The clear takeaway is that the future success for DTC is in omnichannel sales, yet brands still need to be strategic in how they deploy resources across channels based on their brand heritage and ambition.

To succeed, brands must deliver a cohesive, profitable customer experience that aligns with long-term strategic goals requiring:

- **Integrated Inventory Planning:** Allocating inventory and working capital based on real demand across digital, physical, and partner-driven channels.
- **Unified Customer Data & Insights:** Creating a 360-degree customer view to fuel personalization and channel-specific conversion.
- **Channel-Specific Margin Understanding:** Understanding and managing profitability across retail, wholesale and marketplaces in real time.
- **Operational Agility:** Scaling fulfillment, marketing and technology infrastructure to support multi-channel growth without fragmentation.

These topics will continue to dominate leadership and board conversations as retailers look to drive sustainable growth and maximize return on investment.

*“The clear takeaway is that the future success for DTC is in omnichannel sales, yet brands still need to be strategic in how they deploy resources across channels based on their brand heritage and ambition.”*

— **CAILYN MITTUR**

Managing Director, FTI Consulting

## What This Means for Major Marketplace Events and Beyond

As consumers flock to online marketplaces in search of deals, they will expect brand consistency, reliable fulfillment and easy cross-channel experiences.

For growth-oriented leadership teams, major marketplace-driven events (like Prime Day, Target Deal Days, Walmart+ Week, Black Friday) are no longer just a sales event, they are a real-time stress test of omnichannel strategy:

- *Are we showing up where our customers are?*
- *Is our pricing, content, and inventory aligned across DTC, retail and marketplace platforms?*
- *Can our operating model flex to handle the volume and deliver on the promise?*

The brands that win during these events and build a lasting advantage are those that view it not just as a spike in sales, but as a stress test of their long-term channel strategy and infrastructure.

The DTC revolution isn't over. It's simply evolved. And the next wave of winners will be those who invest wisely, scale intentionally and build capabilities that connect the dots across every consumer touchpoint — from livestream to doorstep, and everything in between.

## Endnotes

- <sup>1</sup> Libbi Cathey, “[Fauci: ‘In a Perfect World’ Americans Would Stop Shaking Hands,](#)” ABC News (April 9, 2020).
- <sup>2</sup> References to e-commerce throughout this report refer to online sales of omnichannel retailers as well as online-only retailers and platforms. Also, the terms e-commerce retailing and online retailing are used interchangeably.
- <sup>3</sup> “[Fact Sheet: President Donald J. Trump Closes De Minimis Exemptions to Combat China’s Role in America’s Synthetic Opioid Crisis,](#)” The White House (April 2, 2025).
- <sup>4</sup> Michael D. Sutherland, Karen M. Sutter, “[China’s E-Commerce Exports and U.S. De Minimis Policies, Congressional Research Service \(CRS\),](#)” Congress.Gov (February 2, 2025).
- <sup>5</sup> Megan Cerullo, “[A ‘de minimis’ tariff exemption expires Friday. Here’s what that means for shoppers,](#)” CBS News (May 13, 2025).
- <sup>6</sup> The U.S. Census Bureau — our data source for online sales — will not publish supplemental e-commerce sales by product category for 2024 until later this year, so we cannot update those market share estimates until then.
- <sup>7</sup> Joanna Glasner, “[VCs No Longer Do DTC,](#)” Crunchbase News (November 2, 2023).
- <sup>8</sup> Ibid.
- <sup>9</sup> Tatiana Walk-Morris, “[Roughly 75% of DTC brands bring in under \\$1M in online sales: report,](#)” Retail Dive (March 8, 2022).
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- <sup>12</sup> Richa Naidu, Kenneth Li, Nick Zieminski, “[FOCUS-How the pandemic helped Walmart battle Amazon Marketplace for sellers,](#)” Reuters News (April 14, 2021).
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