

D2C Manufacturing in a Recession

A 2022 Review of Peak Holiday
Sales Periods

katana



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About Katana Cloud Manufacturing

Katana's cloud manufacturing platform covers the live inventory, production, accounting, and reporting features that give businesses the knowledge they need to make the right decisions. Founded in 2017, Katana's portfolio of over a thousand companies ranges from hobby makers to multi-million dollar manufacturing businesses, supporting over \$1 billion in combined sales revenue in 2022.

Integrations and an open API allows customers to rely on Katana as a central source of truth, connecting to best-in-class e-commerce, accounting, and shipping software for maximum accuracy and efficiency.

Learn more about Katana Cloud Manufacturing:

www.katanamrp.com

1. Executive summary

In 2022, the global economy experienced its toughest set of challenges since World War II¹. While the residual impact of the COVID-19 crisis lingered, political unrest spurred global inflation to the highest levels since 2001. And for the next two years, it's not expected to drop to pre-pandemic levels².

For direct-to-consumer (D2C) manufacturers, the threat of the recession was two-fold. First and foremost, times of recession are historically characterized by conservative spending and shifts in buyer behavior. And in 2022, the Russia-Ukraine War far amplified the existing logistics disruptions and material shortages that emerged during the pandemic³. The resulting energy crisis, particularly in Europe, only added more pressure and strained supply chain structures. And the impact of rising gas and fuel prices on consumer confidence and expendable income was expected to further curb spending.

While all forms of spending are impacted by economic trends, peak holiday sales uniquely highlight consumer confidence and, for D2C manufacturers and retailers, indicate willingness to purchase non-essential goods. Contrary to the gloomy economic landscape, Shopify reported 17% more Black Friday sales in 2022 compared to 2021⁴. And consumer research published by PwC cited that 74% of respondents planned to spend as much or more in 2022 than they did the year before⁵. Consumer behavior aside, profitability and success for D2C manufacturers and retailers is still threatened by inflation, rising material costs, and more.

The following report uses proprietary data from Katana's customer base of D2C manufacturers to gauge the impact of the recession on 2022 peak sales periods. Combining expert consumer and market research and data from real D2C manufacturers, the report is concluded with actionable insights that can support D2C manufacturers as they continue to navigate economic volatility.

¹ IMF Annual Report 2022, [IMF](#) (2022)

² World Economic Outlook Update, [IMF](#) (2023)

³ How to reinvent supply chains in a new global economic order, [World Economic Forum](#) (2022)

⁴ Cha-ching! Shopify merchants break Black Friday records with \$3.36 billion in sales, [Shopify](#) (2022)

⁵ 2022 Holiday Outlook generational insights, [PwC](#) (2022)

2. About the sample data

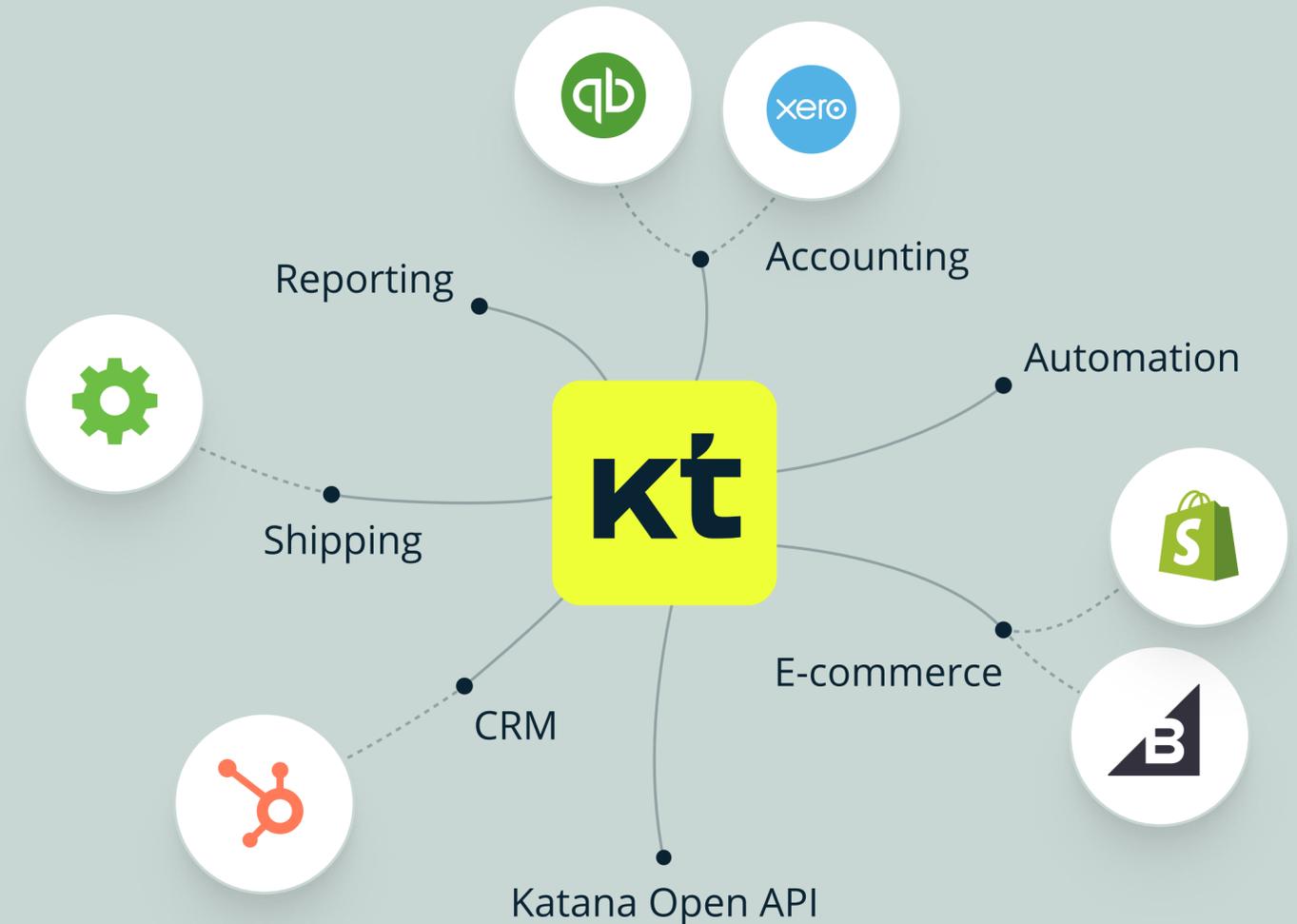
Thousands of businesses manage operations from sales to inventory on Katana's cloud manufacturing platform.

>30%

of Katana's customer base are direct-to-consumer manufacturers who use a range of e-commerce integrations like Shopify, BigCommerce, and WooCommerce

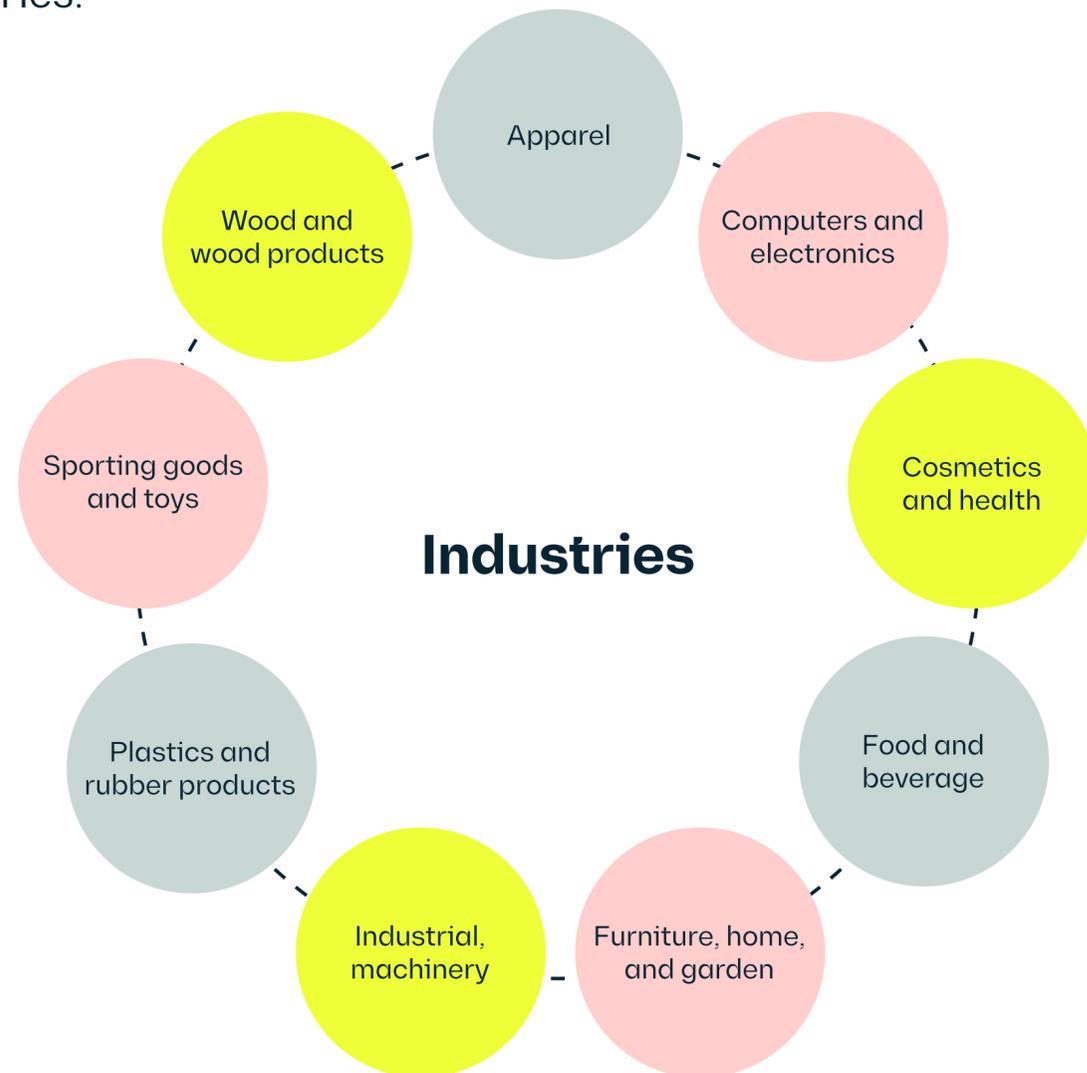
>40%

of all customers integrate Katana with accounting platforms like QuickBooks Online and Xero, relying on Katana as the central source of truth for all their key business data and operations.



Industries and products explored

The sample of customers included in this report have used Katana for a minimum of 12 consecutive months and operate in the following industries:



Defining peak holiday sales periods

Based on Katana's data, two peak sales periods surrounding the winter holiday period have distinctly different sales and inventory activity. These include:

- **Black Friday and Cyber Monday 2021:** November 26th – 30th
- **Black Friday and Cyber Monday 2022:** November 25th – 29th
- **Winter Holidays (2021 and 2022):** December 23rd – 27th

Referenced terms and metrics

To identify trends in activity, the following terms and metrics are used throughout this report:

- **Sales order turnover:** Total incoming revenue from sales orders
- **Sales order volume:** Total number of sales order rows created
- **Average lead time:** Time between created purchase order and purchase order received

While Katana supports multiple currencies to simplify international purchase orders and sales, all values in the following report are expressed in US dollars (\$).

3. Key insights

Sales trends during peak holiday periods

Among industries and businesses categorized as seasonal, there is an **average increase of 44% in daily sales orders volume** during the Black Friday and Cyber Monday period compared to regular Q4 levels in 2022.

While there is an undeniable spike in daily sales order volume during the Black Friday and Cyber Monday, **sales order turnover only increases by 3.8%** between Q3 and Q4 in 2022 for seasonal customers.

+3.8%

+44%



3. Key insights

Sales trends during peak holiday periods

There is a **56% decrease in average daily sales order volume during the Winter Holiday period** compared to Q4 levels in 2022. This suggests that most consumer shopping for both holiday periods occur during Black Friday and Cyber Monday, where they get the best deals and discounts.

-56%

0%

3. Key insights

Inventory and supplier trends in 2021 vs 2022

When looking at the cost of raw materials for seasonal businesses between 2021 and 2022, **57% of raw materials increased in price.** And for 25%, the increase ranges from 20% to 100%.

25%

50%

57%

75%

Businesses that see seasonal surges in sales don't receive or send purchase orders during the Winter Holiday period. They rather prepare their inventory for both holiday periods before Black Friday, where we see a surge in purchase orders that slows until a second peak in January in both 2021 and 2022.

Industries that demonstrate seasonality⁶ based on Katana's customer data are listed below. These results are comparable to Shopify's top product categories during the same period: apparel, health and beauty, and home and garden⁷.

- **Apparel**
- **Cosmetics**
- **Toys and sporting goods**

Aside from seasonal gifts like lump-of-coal-scented bath bombs and holiday gift wrapping, products with the highest surge in volume during Black Friday include:

American flag cap (+26%)

Home security alarm (+28%)

⁶ Seasonal industries are identified by a significant increase in both sales deliveries and sales turnover during Black Friday, Cyber Monday, and the Winter Holidays compared to the rest of the year.

⁷ These results are comparable to Shopify's top product categories during the same period: apparel, health and beauty, and home and garden. *Cha-ching! Shopify merchants break Black Friday records with \$3.36 billion in sales, [Shopify](#) (2022)*

81%

Proportion of sales orders that come in from Shopify across all industries over the course of the entire year of 2022, which also have the **lowest average sales order value.**

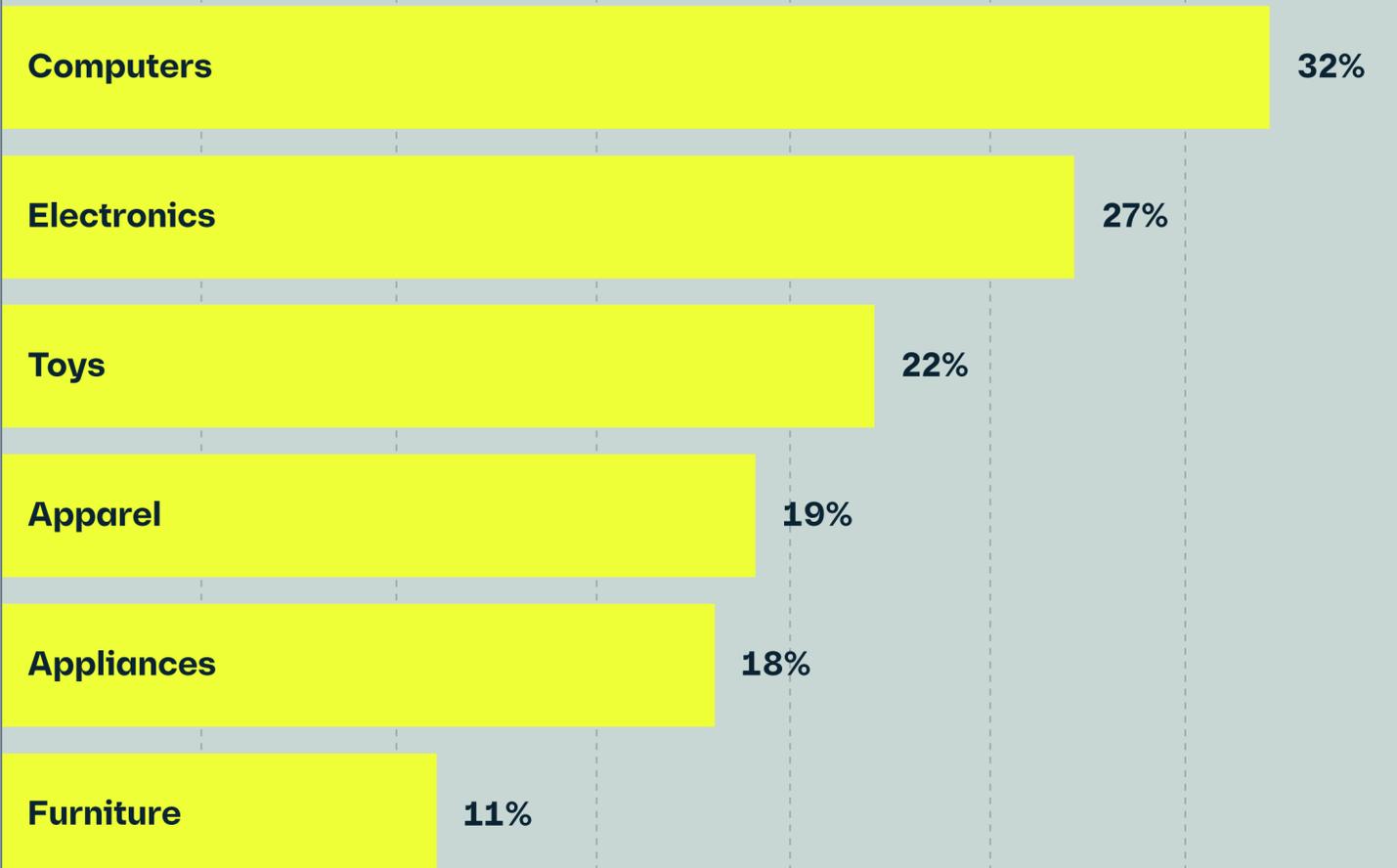
The biggest challenges for D2C manufacturers in 2022 and beyond

Despite boosting incoming sales orders, seasonal discounts make a minimal impact on revenue

Black Friday and Cyber Monday are characterized by soaring online discount rates, particularly in seasonal industries where discount deals range between 11-32%⁸. E-commerce and D2C manufacturing businesses often use this as an opportunity to ride the wave of high demand. At the same time, they are also forced to compete with low-ball offers for the same products.

⁸ Online discounts forecast during the holiday season worldwide in 2022, by product category, Statista (2022)

AVERAGE HOLIDAY DISCOUNT RATES BY INDUSTRY



Source: Statista (2022)

0% 5% 10% 15% 20% 25% 30%

While the outlook for e-commerce in 2022 was mixed, retailers and D2C manufacturers were not impacted from the perspective of sales order volume compared to 2021. However, sales order turnover among D2C manufacturers in seasonal industries, despite the surges in demand, make a minimal impact on businesses' bottom line.

Forecasting demand and understanding the impact of pricing is an ongoing challenge for D2C manufacturers that won't be going anywhere based on the current global economic outlook.

While differing business models still exist in seasonal industries, a shared challenge between them is the ability to fulfill annual surges in demand. However, Katana customers that experience seasonal demand have certain measures in place that minimize the risks that come with the nature of the business.

+44%

Daily sales orders on Black Friday and Cyber Monday, compared to Q4 average

-56%

Daily sales orders during the Winter Holidays, compared to Q4 average

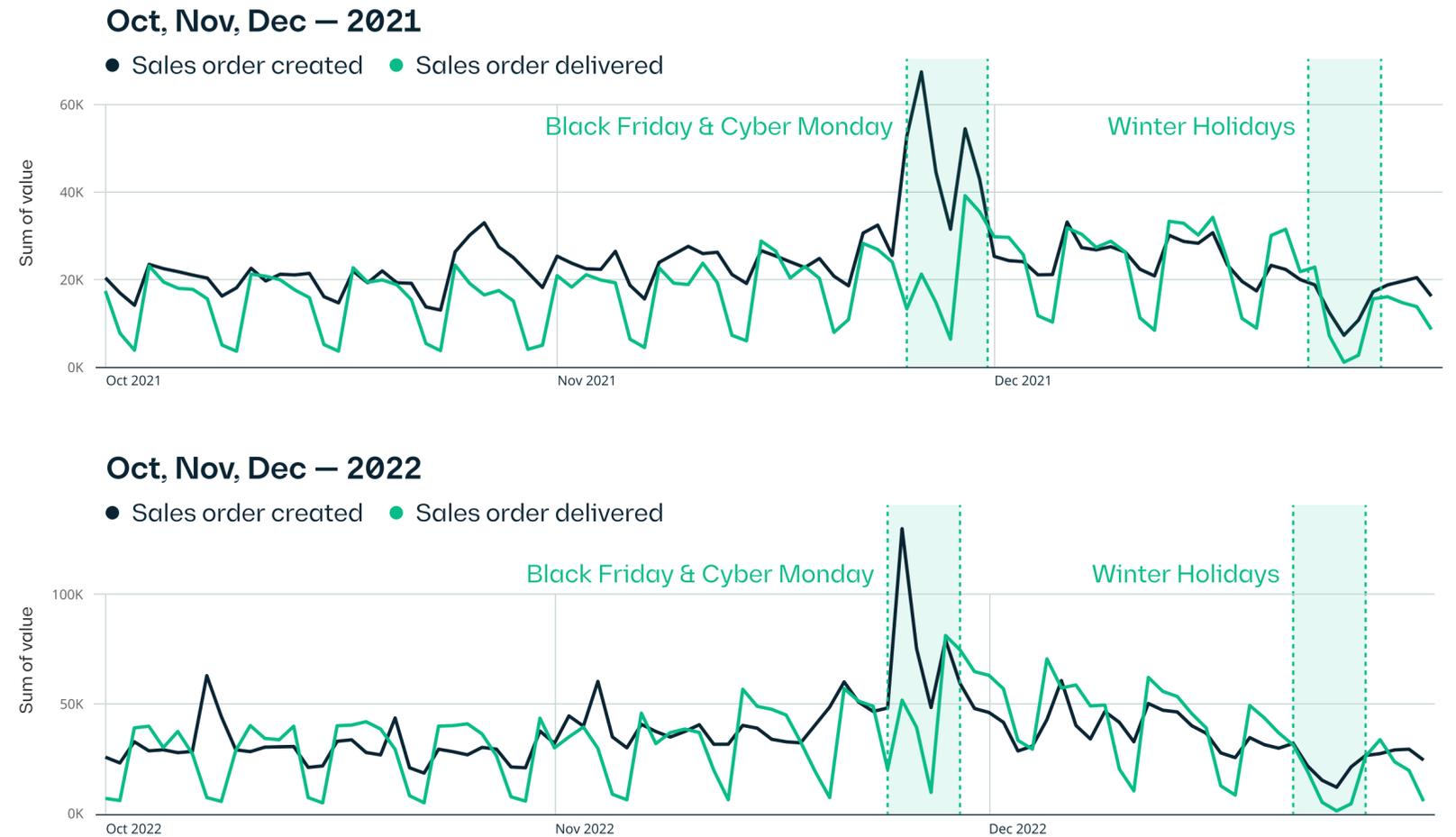
+3.8%

Sales turnover in Q4 2022, compared to Q3

Issues with fulfilling sales orders during demand surges are resolved with the right preparation

Performance relies heavily on pricing and discounts, but the ability to deliver and cater to high volumes is also a key factor. While software systems give D2C manufacturers better visibility and control over inventory, sales, and financial data, the success of this depends on how well the tools are integrated and when they are tested.

PEAK HOLIDAY SALES ORDER VOLUME 2021 VS 2022



Source: Katana (2023)

Invoices created and sent to integrated cloud accounting solutions like QuickBooks Online and Xero matched the sales order volume, aligning with the sales order volume increase of 44%. However, there is a slight delay, most likely due to syncing between software. But other indicators of late preparation, like a rise in sales orders not being marked as delivered just before Black Friday and Cyber Monday, are likely due to last-minute software testing and resyncing of integrations.

Ultimately, it appears that D2C manufacturers wait until very close to peak sales periods to prepare their software and struggle to update it.

Businesses that see seasonal surges in sales don't receive or send purchase orders during the Winter Holiday period. They rather prepare their inventory for both holiday periods before Black Friday, where we see a surge in purchase orders in October and November that slows until a second peak in January in 2021 and 2022. Average lead time, calculated as the time between the purchase order creation and when it is received, does not change between October and January in both years, possibly due to well-timed purchasing decisions.

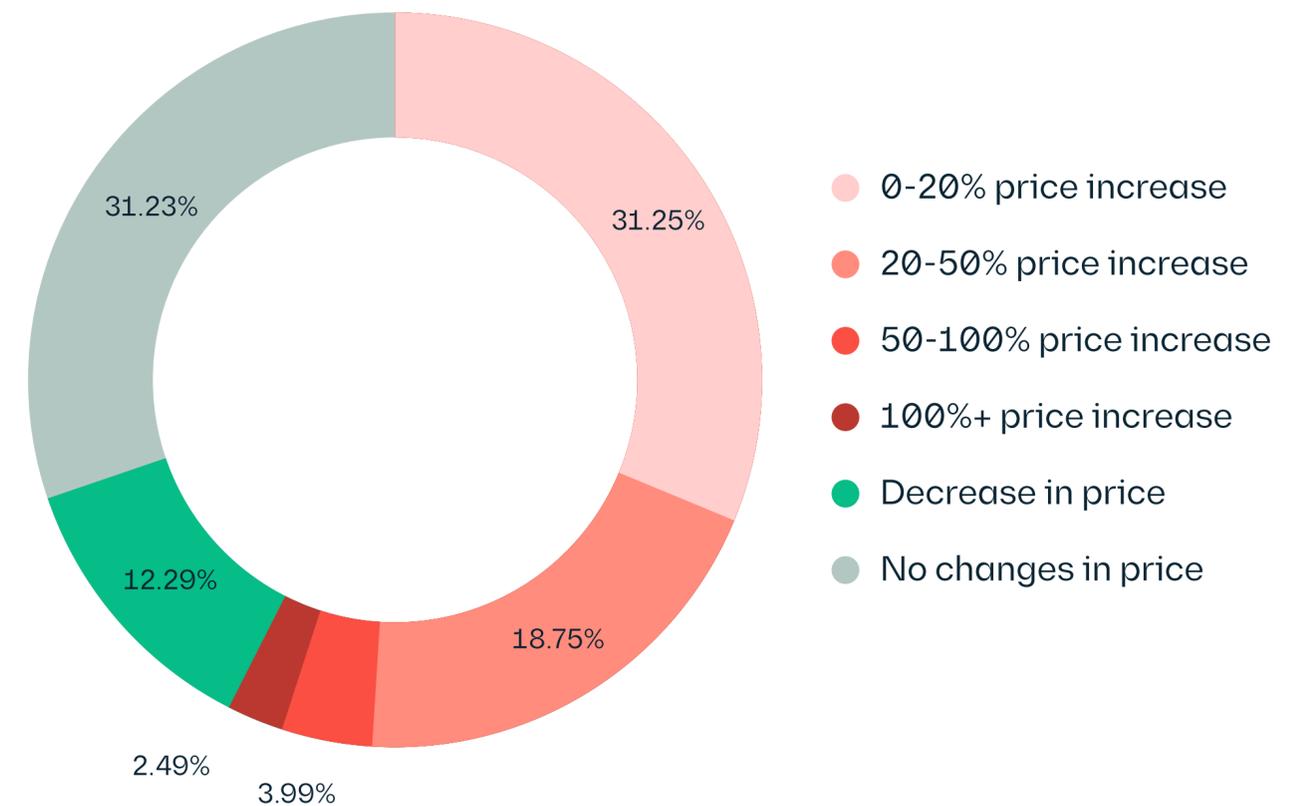
As seasonal businesses are well-aware of upcoming sales surges, they may anticipate potential delays during the Winter Holidays and place orders in advance to avoid them, then restock in January when sales order volume declines.

In short, preparation is key to ensuring delivery and overcoming obstacles despite other challenges that come with global supply chain disruptions.

The impact of supply chain challenges and material costs on the bottom line

The challenge of keeping track of changing prices and supplier terms, both in terms of delivery times and pricing agreements, also plays a role in business performance during peak sales periods. D2C manufacturing businesses with make-to-stock workflows anticipate demand with larger purchase orders in preparation. In contrast, make-to-order workflows must account for materials and operational resources to assemble and create custom products.

CHANGES IN RAW MATERIAL COSTS IN 2022

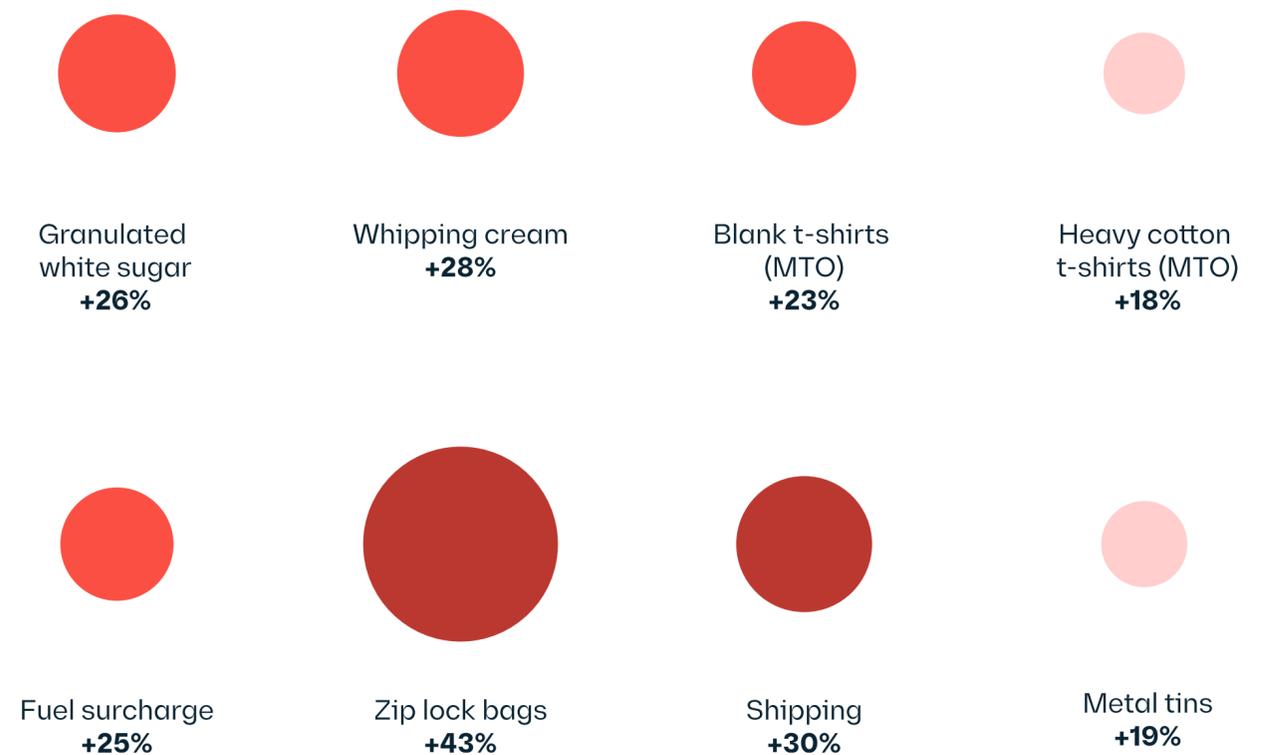


Source: Katana (2023)

In both cases, the cost of labor and inventory is impacted by amplified supply chain issues. When looking at the expense of raw materials for customers between 2021 and 2022, 57% of materials saw a price increase. And for 25%, the increase ranges from 20% to 100%. These figures factor in the use of the same supplier and item variant, as well as a similar or higher order volume in 2022 which would, in theory, lower the cost per item. While it is difficult to generalize with a broad range of customers and business models, some of the most impacted raw materials were made-to-order apparel pieces for custom printing, food and beverage ingredients, and packaging materials and shipping costs.

Macro trends support some of these findings. Across the globe, food prices have surged 65% since the start of the Covid-19 pandemic⁹, the UK rolled out a Plastic Packaging Tax (PPT) on April 1st, 2022¹⁰, which applies to any manufactured or imported plastic packaging components that contain less than 30% recycled plastic, and overall gasoline prices in the US rose by 48.7% from May 2021 to May 2022. There are mixed opinions on whether the situation will improve or escalate. Staying ahead of the curve and preparing for the worst is the only way to future-proof your business.

EXAMPLES OF RAW MATERIALS THAT INCREASED IN COST FROM 2021 TO 2022*



Source: Katana (2023)

⁹ Why Food Prices May Be Peaking, Morgan Stanley (2022)

¹⁰ Plastic Packaging Tax: steps to take, GOV.UK (2021)

*These are not representative of all products in each category, but examples of specific materials from individual suppliers.

Seasonal sales preparation checklist for 2023

While there are multiple challenges for D2C manufacturers, there is nothing the right planning can't help you overcome or, at the very least, mitigate the inevitable risks that come with being in this industry. From software implementation to operations, here are the ways Katana customers prepare for sales surges.





Forecast demand and stock materials and products early

Katana customers that do not see increases in order lead time and longer purchase order cycles are the businesses that forecast early and place orders as late as possible. Not only does this minimize the risk of delays mid-sales surge, but it also helps you avoid operational challenges that can distract your team from catering to demand like stockouts.



Test online sales channel workflows and integrations before orders spike

If you're selling on e-commerce platforms like Shopify, especially if you have multiple web shops, you want to ensure orders are correctly populating in your manufacturing software. Errors and incorrectly set up custom workflows, especially when you use a blend of make-to-order and make-to-stock, can easily result in delivery issues that are easier to prevent than resolve when the pressure is on.



Connect and configure your accounting software correctly

Manufacturing costs are complex, and high periods of sales activity result in an influx of material and sales data that can easily distort and reduce the accuracy of your financial data. This will ultimately reduce your ability to forecast and measure performance for future sales periods correctly. Rushed testing results in syncing errors between systems and will affect other insights tracked in your manufacturing platform. Hiring an accounting expert in the manufacturing space can be a huge help if needed.



Factor in rising material costs in holiday pricing and discounts

While inflation and rising costs are always a factor, the global economic landscape is increasingly unpredictable and volatile. With the right financial data systems in place, you have the historical data to assess price sensitivity and ensure that the products you sell are both in demand and profitable. Having the right tech stack in place can help you make those critical decisions and set you up for success.

Looking for more ways to stay ahead of sales surges?

Schedule a free consultation with a team of seasoned manufacturing experts who can help you set up your manufacturing tech stack for success – no matter the season. Manufacturers trust Katana Cloud Manufacturing to manage over \$1 billion of revenue in 2022 alone, and rate Katana as an industry-leading manufacturing solution every year.

Book a consultation

Track product availability

	Stock	Materials	Production	Delivery
eBay	✓	✓	✳	
Amazon	✳	✓	✓	✳
BigCommerce	✳	✓	✓	✳
Shopify	✳	✗	+	

Multi-channel sales order delivery

