



# 2018 RETAIL INDEX

## THE CUSTOMER STRATEGY CLIFFHANGER

This year's data exposed a formidable predicament: customers were elusive and less profitable than expected. However, gains in inventory efficiency pointed to cross-functional alignment and coordinated action.





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## BREAKING DOWN THE TRENDS + 2019 OUTLOOK

Insight and explanations for the most important trends of 2018.



### MARKETING SPEND

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Despite retailers **spending 32% more on marketing** over last year, retailers were often left with a deficit compared to plan. While increased marketing dollars failed to produce the influx of new customers expected, retailers who spent marketing budget promoting high converting products produced a new customer count that met their goals.



### NEW CUSTOMER ACQUISITION

New customer acquisition decreased in 2018 as retailers aggressively competed for wallet share. Although North American marketing spend increased, retailers and brands struggled to gain new customers with **acquisition down 6%** 2018. In 2019, many retailers will face the daunting task of making plan because of a smaller 'first-customer' segment that is shopping at a lower frequency. How can retailers do more with less?



### NEW CUSTOMER PROFITABILITY

**Newly acquired customers proved 5% less profitable** in 2018 compared with 2017, leaving retailers to assess their acquisition strategies and examine disconnects between marketing and their profit-driving products. In 2019, retailers that align their marketing strategies with products that most efficiently attract new customers, have good margins and high affinities with profitable products will see better new customer profitability.



### FIRST TO SECOND TIME BUYERS

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Cultivating repeat purchases continued to challenge retailers, as **first to second time buyers decreased 3%** in 2018. While many retailers are finding it increasingly difficult to cultivate a loyal customer base, retail leaders are using organization-wide data to determine the blend of products, brands and messaging that most efficiently motivate repeat purchases by customers likely to generate profit.



### PROMOTIONS AND MARKDOWNS

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Although holiday promotions began earlier than ever in 2018 (starting pre-Halloween), **orders placed on promotion were down 2%** in 2018. However, **promotions eroded profit margin nearly 4% more** than in 2017. Additionally, consumers responded with enthusiasm to markdowns on specific products. **Markdowns increased by 3%** and **reduced margin by 11%** more in 2018.

\*2018 versus the same time period in 2017, unless otherwise noted



## FREE SHIPPING



Free shipping **increased by nearly 13% in 2018** and continued its upward trend in the first weeks of January, with an **increase of 9%**. Top retailers offer free shipping based on customer lifetime value, the margin of the order and targeted acquisition plans.



## RETURNS

The value of **returns was up an average 34%** in 2017 versus 2016, and **up an additional 4% YoY** in 2018. In the final week of December, **returns increased 33%**, as compared to same time period in 2017, and have **remained up by 26%** in January 2019 vs. 2018.



## CUSTOMER EXPERIENCE: INVENTORY

In 2018, both products that customers viewed (Views Availability) and the exact colors/sizes (SKU Availability) they were seeking were **in stock 2% and 5% more often** prospectively. Gains across both areas indicate better alignment between planning & buying, merchandising, marketing and operations. Retailers that focused on these metrics and made nimble adjustments throughout the year fared the best.



## INVENTORY MANAGEMENT

Inventory was a bright spot for retailers in 2018. Not only was **unsold inventory down 43%**, but coupled with a **22% increase in inventory value**, it appears retailers and brands are more accurately forecasting the proper range and assortment to fulfill customer demands and taking measures to sell through inventory at a better rate than in 2017. Retailers who found ways to sell through slower moving merchandise without sweeping markdowns were the biggest winners.



## CUSTOMER PROFITABILITY

Retailers struggled to generate profit with new customers and repeat ones alike. Customer profitability decreased across every segment: **5% for first time buyer, 4% for 2th - 5nd time buyer, 5% for 6th - 10th time buyer** and **8% for 11+ buyer**. What's more, the 11+ 'loyal' customer segment was often highly motivated by promotions and markdowns and frequently utilized free shipping, which cut into overall profit.



*"Forward thinking retailers recognized that big strategic shifts were necessary in 2018. They followed through with fewer promotions and improved inventory curation.*

*The data demonstrates that retailers are making strides. However, the industry is only getting more complex and customer profitability more vital. Digital transformation across the organization has gone from 'nice to have' to critical.*

**2019 is the year for retailers to build a strategy anchored in customer lifetime profitability in order to truly succeed."**

*- John Squire  
CEO, DynamicAction*

# 2019

Retailers' growth plans in 2019 will have the daunting task of generating more revenue from a smaller 'new-customer' segment that is then shopping at a lower frequency. Retailers will need to focus even more intently on customer profitability, as overall customer profitability (from 1st time to 11+ purchasers), is either flat or down for the first few weeks of 2019. The recipe for increased profit with fewer customers is in-depth knowledge of the customer base, coupled with laser-targeted customer strategies that align the proper products and messaging, which most effectively produce the highest customer lifetime value.

\*2018 versus the same time period in 2017, unless otherwise noted



## ABOUT THE RETAIL INDEX

The DynamicAction Retail Index: 2018 Year in Review & 2019 Outlook is an analysis of more than \$12.3 (£9.53B) billion in online consumer transactions globally for January 1st, 2018 through January 14th, 2019. The transactions analyzed account for more than \$5.7 billion (£4.4B) in North America and nearly \$6.6 billion (£5.1B) in Europe.

The DynamicAction Retail Index analyzes consumer transactions in the general merchandise, home goods and apparel categories. It does not include grocery, nor does it include Amazon transactions.



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## ABOUT DYNAMICACTION

DynamicAction is a retail analytics guidance system that leverages cloud software and a proven success program to catalyze the new customer-first operating mindset in retail.

DynamicAction empowers retailers with a clear path to navigate their transformational journeys with AI-powered metrics. It enables faster, better decisions to deliver profit, analytics and visualizations for immediate insights, prioritized opportunities and prescribed actions to take online and in-store.

Forward thinking retailers across the globe, including Cole Haan, Columbia Sportswear, Jack Wills and Farfetch rely on DynamicAction's advanced analytics and retail-built practices to holistically run more efficient organizations and formulate laser target strategies to uncover their most profitable customers.

Forrester Research recently recommended DynamicAction as the key prescriptive analytics technology to replace predictive analytics in retail, and the National Retail Federation named DynamicAction the 2017 Digital Commerce Startup of the Year for its ability to "significantly improve or radically alter how retailing is done."

Headquartered in Silicon Valley, DynamicAction has offices in London, Sofia and Dallas.