

THE DYNAMICACTION RETAIL INDEX

2019 YEAR IN REVIEW



AN ANALYSIS OF MORE THAN \$14 BILLION IN CONSUMER TRANSACTIONS

Throughout 2019 retailers strived to meet consumers' ever-elevated demands for a better shopping experience by getting the right products into their customers' hands fast and free. However, retailers struggled to find a way to deliver a competitive customer experience and grow profitably. All the while, top retailers used powerful insights and definitive new metrics to avoid blunt action, thoughtfully automate, win profitable new customers and keep the customers most likely to meet their CLV thresholds loyal.

MARKETING COST

In 2019, retailers and DTC brands spent **9% more** in marketing per consumer order.



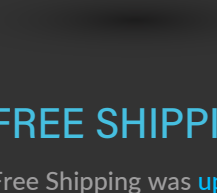
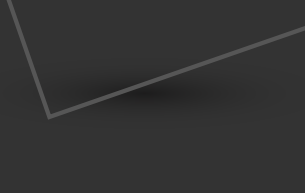
INVENTORY

Inventory value **increased an average of 5%** in 2019. The last 3 months of the year heavily contributed to the YOY growth, as inventory value was up every week of Q4 2019 versus Q4 2018.



PROMOTIONS MARGIN IMPACT

Promotions ate away at profits in 2019. The chunk of profit reduced by promotions was **24% bigger** than in 2018.



FREE SHIPPING

Free Shipping was **up an average of 8%** over 2018 and continues to rise. In the first weeks of 2020, free shipping is up 9% over 2019.



NEW CUSTOMERS

Retailers and brands continued to struggle with winning new customers. First time customer purchases **fell 6%**.



RETURNS

Returns were up an average of 5% in 2019. Earlier holiday shopping appeared to lead to earlier returns with a YOY **increase of 16%** during the holiday shopping season.



CUSTOMER PROFITABILITY

Customer profitability across North American & European retailers is **down 9%** across all customer cohorts.



The DynamicAction Retail Index: 2019 Year in Review & 2020 Outlook is an analysis of more than \$14 billion in online consumer transactions globally from January 1, 2019 – January 4, 2020. The transactions analyzed account for over \$9.2 billion in North America and more than \$4.8 billion 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.

The DynamicAction Retail Index Archive

MARKETING COST PER ORDER

9% Marketing cost per order increased an average of 9% for 2019 across North American and European retailers. However, just in time for the holidays, marketing costs ramped up 11% Halloween through the end of 2019. North American retailers specifically saw marketing cost per order increase by 33% during Cyberweek 2019 compared to last year.

NEW CUSTOMER ACQUISITION

6% New customer orders were down an average 6% compared to 2018. This downward trend did not let up during the holiday season as new customers continued to decline. The decrease in 2019 follows an identical 6% decrease 2018. A shrunken 'first-time-customer' segment leaves retailers with the challenge of developing new strategies to win more customers and/or making the smaller new customer segment more loyal than previously required to make plan.

A leading European retailer increased new customers by 36% by focusing on marketing campaigns the DynamicAction Analytics Platform identified as the most effective in driving new customers that purchased high-margin products.

PROFITABILITY OF NEW CUSTOMERS

3% The average amount of profit coming from customers who made their first purchase within the year dropped 3% in 2019. In 2018, new customer profitability had already dropped 5% from the year before.

Retailers leveraging an understanding of the profitable products that attract new customers, and the marketing strategies that best drive them, are turning new customers into more profitable customers at an increased rate.

FIRST TO SECOND TIME BUYERS

8% The conversion of first-time buyer to second purchase has continued its downward trend with an average decrease of 8% since 2018. Additionally, a repeat buyer in 2019 was 10% less profitable than in 2018.

Using insights from DynamicAction, a global retailer converted first-time buyers to a second purchase with over 40% greater efficiency than the previous week. Deep insight into the highest converting and most addictive products is essential when developing profitable repeat customers.

PROMOTIONS AND MARKDOWNS

24%* The more precision-oriented retailers are applying markdowns at the SKU level and excluding products and/or product categories with promising full price sell-through probability from promotions.

Retailers continued to pull the promotional lever, with orders using promotions up 4%* in 2019. These promotions eroded margin by 24% more than in 2018. However, markdowns fell by 3% in 2019, and these markdowns eroded margin 2% less than last year. This prompted an increase in full price sell-through- up 4% in 2019.

FREE SHIPPING

8% The share of orders that were shipped free was up 8% in 2019. In fact, the number of orders shipped free was only down one week in the second half of 2019 and is already up 9% in the first weeks of 2020.

Though retailers are more often meeting customer demand for free shipping, fast shipping is proving more difficult to provide or has been deprioritized. The time elapsing between an order being placed and shipped increased by almost 4% in 2019 compared to 2018.

Top Retailers are using customer lifetime value to develop sophisticated shipping price strategies. For example, a retailer may provide free shipping at a loss when the lifetime value of a customer meets or is expected to meet an attractive threshold. Also, high lifetime value customers may be put at the front of the order fulfillment queue.

CUSTOMER EXPERIENCE: INVENTORY

1% Views Availability (the rate at which the product being sought is also available for purchase) had a slight uptick in 2019. Yet, beginning mid-August, this rate jumped up an average of 10% to close out 2019. SKU Availability (the rate at which a particular size or color of the product being sought was available) held steady in 2019.

At a luxury marketplace retailer The DynamicAction Analytics Platform surfaced over 500 products that were in high demand, yet not available for purchase because of stock and distribution issues. Quick fixes yielded over \$275K (£210K) in sales and over \$76K (£58K) in profit in one week.

INVENTORY HELD

5% Retailers across North America and Europe held 5% more inventory in 2019 compared to 2018. Furthermore, since the end of August, inventory value was up every week through the end of 2019. It appears that though inventory has increased, retailers are more effectively exposing that inventory to potential buyers as the percentage of inventory not receiving any interest by shoppers decreased by almost 8% YOY.

RETURNS

5% For 2019, overall returns were up an average of 5%. Starting mid-November and through the first week of January—returns were up 13% over the same period in 2018. Specifically, North American retailers saw a 28% uptick in returns starting Cyberweek 2019 through the first weeks in 2020.

At a leading global sportswear retailer, the DynamicAction Analytics Platform surfaced an opportunity to improve on an unusually high return rate for a product. Over half (57%) of the returns were due to sizing issues. The brand swiftly added a notice for shoppers to size-up, which reduced the product return rate by 60%.

OVERALL CUSTOMER PROFITABILITY

9% Customer profitability was down 9% across all customer cohorts.

	2019	2018
Europe:	12% decrease	2% decrease
North America:	5% decrease	6% decrease

Balancing the rising costs of marketing, promotions and experience such as free shipping and easy returns, with delighting the customers likely to meet CLV expectations is vital to profitable growth.

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THE DYNAMICACTION RETAIL INDEX:

2019-2020 RETAIL VORTEX

AN ANALYSIS OF THE **HOLIDAY SEASON** INTO THE NEW YEAR



THE 'RETAIL VORTEX'

The Retail Vortex is a strengthening yearly pattern where fewer new customers, higher marketing costs, increased returns and a rise in inventory create a spiraling force that drive costs up and profits down at the start of the new year.

In 2018, the vortex began at the end of the holiday shopping season and concluded mid-January. However, in 2019, returns were up a huge 13% beginning mid-November, revealing an earlier start to 'The Retail Vortex'.

In addition to the vortex beginning earlier, the vortex gained strength since last year. While the increase in returns brought more products flooding back into store inventory earlier than last year, retailers were also left holding 11% more inventory, much of which was sold at deep discounts or couldn't be put back on shelves at all. While marketing spend grew, acquisition of new customers fell. Marketing cost per order was up 15%,

but despite the increased spend, retailers acquired 6% fewer new customers compared to 2018.

The retailers avoiding the full impact of the vortex are the ones that understand the key elements eroding their profit leading them to plan and take action differently.

2020 OUTLOOK

For more information on our 2020 Outlook and how leading retailers are successfully transitioning to a new operating mindset powered by new metrics for retail, contact us.

ABOUT DYNAMICACTION

The DynamicAction Retail Analytics Platform and a proven activation program catalyze the retailer-first operating mindset for profitable success in retail. DynamicAction empowers retailers with a clear path to faster, better decisions. Definitive analytics, prioritized opportunities and prescribed actions make an investment in DynamicAction produce results from day one, while democratized insights and clean, dependable data streams built specifically for retail ensure a faster return on data lake-dependent projects, partner technologies and AI initiatives.

Forward thinking retailers across the globe rely on DynamicAction to holistically run more efficient organizations and formulate targeted strategies to delight profitable customers. Forrester Research recommended DynamicAction as the key prescriptive analytics technology to replace predictive analytics in retail, and the National Retail Federation awarded DynamicAction for its ability to "significantly improve or radically alter how retailing is done."

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

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