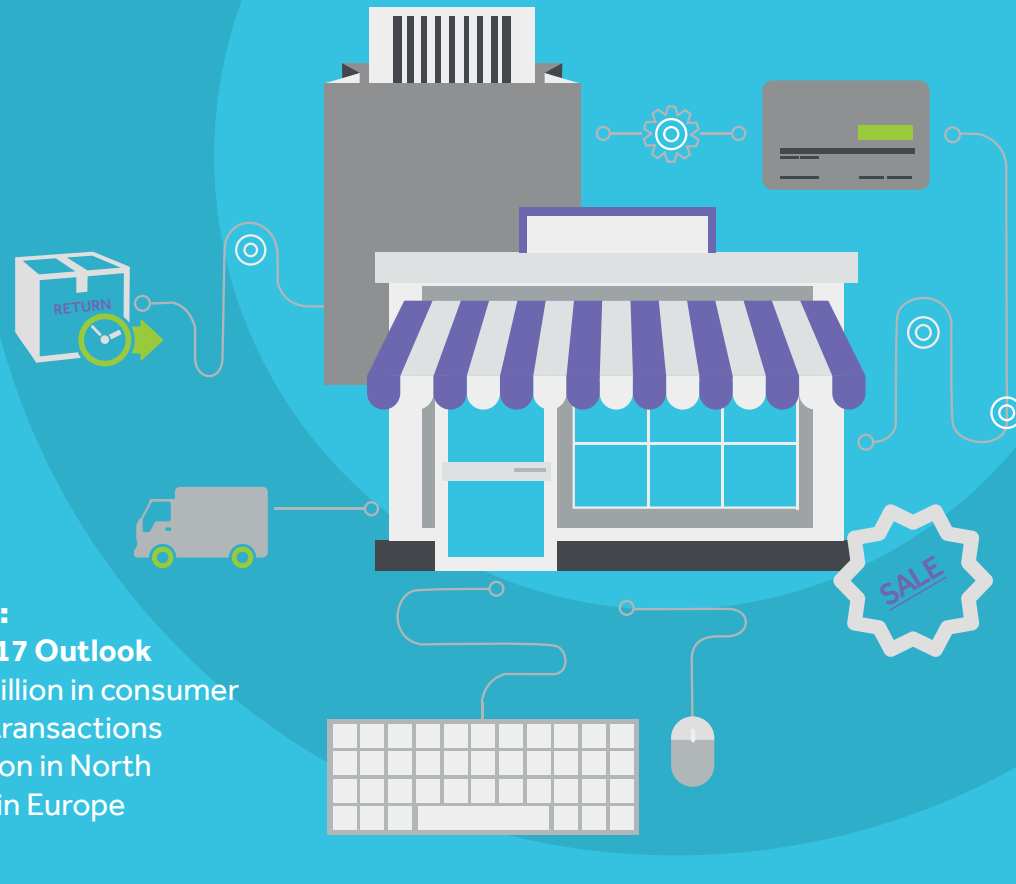


RE-ENGINEERING RETAIL:

HOW 2016, THE YEAR OF PROMOTIONS, SHIFTED CONSUMER BEHAVIOUR AND THE NEW RETAIL DIRECTION FOR 2017



DynamicAction Retail Index:

2016 Year-in-Review and 2017 Outlook

An analysis of more than £7 Billion in consumer transactions globally. Those transactions account for more than £5 billion in North America and nearly £2 billion in Europe

PROMOTIONS & MARKDOWNS

2016 will continue to be known as the **YEAR OF PROMOTIONS**

74% of all orders for the year sold on promotion



48% sold using a markdown



Leading to a **27% MARGIN REDUCTION** for retailers in 2016

FULL PRICE SELL THROUGH IS A FALLACY

So how can retailers promote wisely?



Understand affinities for products that a customer is likely to buy at full price alongside a promoted product



Use connected customer data to understand customers' true desires, including early access to new product lines, exclusive services or merchandise



Look at promotions with high perceived value, but low cost – perhaps free gift with purchase

REAL LIFE:

A top women's apparel retailer offered a **gift with purchase** with high perceived value, but low cost during Christmas 2016. In combination with a tighter alignment of digital and physical store promotions, they saw promotion redemption up **35%**, with **product profits** also up double digits.

RETURNS

To compound the profit erosion of promotions, in Europe, merchandise returns are also on the rise:



Returns were **↑ 14% YoY** and **7%** during the Christmas season



However, return rates are **↓** headed into 2017 with a **16% decrease** in the value of returns in the first two weeks of January YoY

NEW RETAIL DIRECTION: RETURNS



With the new omnichannel reality, many consumers buy online and return to store. Seeing online returns and in-store returns holistically, and strategically planning for how to interpret them in combination, is the only way to get a timely and complete picture on returns to limit profit erosion and gift customer dissatisfaction.

SHIPPING

Throughout 2016 European retailers struggled to live up to shipping promises:



Orders shipped late **↑ 72%** in 2016

Yet, they had tightened up operations in time for Christmas:

Orders shipped late **↓ 8%** during the Christmas season versus 2015

FREE SHIPPING is certainly an expectation of many consumers, but that demand has shifted in the past year:



40% of orders were shipped free in 2016, **↓ 15% YoY**



However, in line with other increased promotional efforts over the Christmas season, free shipping was **↑ 7%** in 2016

EXPRESS SHIPPING is still a Christmas season phenomenon:



Express orders **↑ 17%** during the Christmas season and **↑ 88%** in Christmas week alone

But, express shipping remained mild for most of 2016, **↑ just 2%**

REAL LIFE:

An apparel retailer tested free shipping thresholds aggressively in 2015, and decided to remain consistent with free shipping at a £80 limit in 2016. Free shipping orders for the year were **down 46%**, and shipping profit per order was up **121% YoY**.

Bottom line: They lost money on shipping in 2015. In 2016, they did not.

CUSTOMER & MARKETING TRENDS

Throughout 2016, retailers in Europe struggled to bring in first-time buyers, they also struggled to get customers to convert from 1st-to-2nd buyers:



New customer orders **↓ 6% YoY**

1st-2nd time buyers **↓ 11%** and **↓ 10%** during the Christmas season

Marketing cost was also up throughout 2016 and shows no signs of slowing down in 2017:



2015 2016 **↑ 15%** for the year, **↑ 37%** during the Christmas season

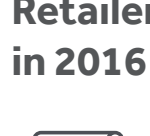
KEY FINDING: MARKETING



Marketing spend has **increased 113%** in January thus far.

INVENTORY EFFECTIVENESS

Retailers in Europe outperformed their North American counterparts in 2016 when it came to inventory efficiency:

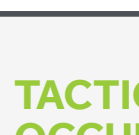


The value of inventory held is **↓ 32% YoY** and **↓ 51%** over the Christmas season

North America saw a **12% increase** in 2016

European retailers provided a better customer experience and kept stock aligned with demand this Christmas season. They had an average **20% increase** in merchandise available that shoppers were seeking in 2016 versus 2015.

TACTICS TO EMPLOY WHEN OVERSTOCKS OCCUR:



Run **"offer of the week/month" or "deal of the day" promotions** that feature overstocked products to incite urgency



Work with **suppliers and vendors** to support the clearing of overstocks, going as far as to replace a vendor-supported "customer rebate" with a direct promotion so that the retailer bolsters their loss of revenue with a reduction in the wholesale cost

REAL LIFE:

Rather than promoting items that could be sold at full price, a leading home wares retailer used overstocked items as the lead in discount email offers during Christmas 2016. The retailer was able to drive a **71% increase in visits through email during December**

For more information visit us at www.DynamicAction.com or connect with us @Retail_DnA on Twitter

This study benchmarks retail trends in key categories from 1st January 2016 – 31st December 2016 in comparison to the previous year. Any references to the "Christmas season" indicate 1st November 2016 – 31st December 2016 versus the previous year and any references to 2017 indicate 1st-10th January 2017 versus the previous year.