DYNAMIC ACTION

2019 YEAR-TO-DATE RETAIL INDEX

Key Learnings for seasonal and peak planning

A new generation of retailers has permanently changed the retail landscape. As retail continues its rapid transformation, the brands that prosper are increasingly placing the customer at the centre of their strategy. Successful retailers are hyper-focused on customer and product KPIs. They've realigned their strategies and business processes to focus on customer growth goals that are centered in Lifetime Value and true customer profitability.

To understand the factors that are impacting profitable customer growth so far in 2019, we analysed £6 billion in online transactions in Europe from 1 January 2019 through 1 June 2019 to identify the top metrics impacting cost-effective growth and improved profitability. A closer look at a subset of data from 25 December 2018 through 14 January 2019 reveals a post-Christmas trend that extensively impacted retail performance - we call this the *Retail Vortex*.

The *Retail Vortex* is an analysis of over £9.53 billion in consumer transactions across North America and Europe from 25 December, 2018 through 14 January, 2019.

FINDINGS

The 2019 Retail Index Year-to-Date and the *Retail Vortex* demonstrates that while retailers are pushing harder and investing more into strategies that emphasize customer experience to remain competitive, they are confronted with a disappointing return. The most forward-thinking retailers are constantly striving to understand their most valuable customers and most addictive products to achieve short and long-term cost-effective engagement. This report reveals the trends, the meaning behind them, suggests tactics to improve retail performance and provides case studies as you embark on seasonal and peak planning for 2019 and beyond.

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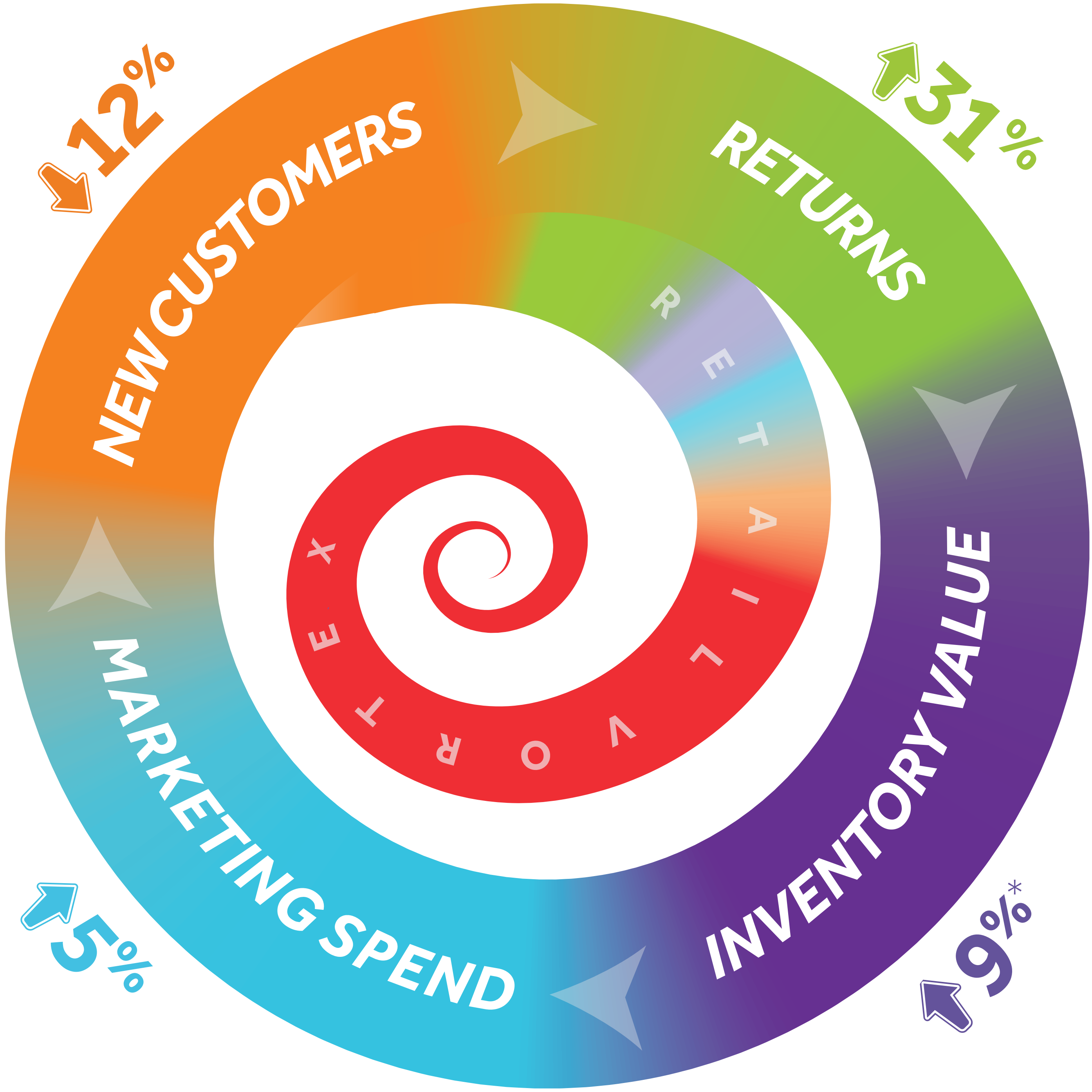
Major Trend: The Retail Vortex

The Retail Vortex is a post-peak shopping phenomenon where fewer new customers, higher marketing costs, increased returns and a rise in inventory create a spiraling force that drive operational costs up and retailer profits down at the start of the new year.



*NA data only for inventory value metric

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THE TRENDS

These trends were derived from an analysis of over £6 billion in consumer transactions in Europe from 1 January, 2019 through 1 June, 2019.

OVERALL CUSTOMER PROFITABILITY ↓ 9%

↑ 31% ORDERS W/PROMOTIONS

↑ 3% FREE SHIPPING

ORDERS W/ MARKDOWNS ↓ 3%

↑ 64% RETAILER MARKETING SPEND

↓ 9% NEW CUSTOMERS

NEW CUSTOMER PROFIT ↓ 8%

↓ 2% CONVERSION TO REPEAT CUSTOMER

VIEWS AVAILABILITY ↓ 11%

INVENTORY NOT SOLD ↓ 4%

↑ 44% INVENTORY VALUE

AVERAGE ORDER VALUE ↓ 5%

AVERAGE UNITS PER ORDER ↓ 4%*

*NA + EMEA data for 2-3 UPO group
2018 vs 2019 unless otherwise noted

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Customer-Centric Peak Retail Strategy: Avoid the Retail Vortex and Win Wallet Share this Peak 2019

Although select retailers are touting major success, others struggle to stay afloat. This 'mixed bag' of news making the headlines clearly demonstrates the ever-evolving complexities needed to deliver profitability in the current state of retail. Consumers are now conditioned to purchase 'single items at will' based on immediate need and encouraged by a lower threshold for discounted shipping.

Online retail has continued projected growth. However, as it stands, the more eCommerce business that occurs the less profit retailers may realise due to the higher cost of servicing this channel. Below we break down the biggest retail trends YTD of 2019 and provide directional guidance on planning a successful Holiday 2019 Strategy that is truly customer-focused, supports profitable peak trading performance and long-term growth into 2020.

OVERALL CUSTOMER PROFITABILITY
↓ 9%

PLAN YOUR PEAK STRATEGY CENTERED ON YOUR MOST VALUABLE CUSTOMERS

On average, customer profitability is down 9% YTD for 2019. The most frequent (11+) shopper remains the most valuable. That value though, has fallen 12% from this time last year, which is the biggest drop of all customer cohorts.

PEAK TRADING

Review retail peak trading strategy through the lens of customer profitability

Your best and worst customers are the main drivers of profit margins. Often, the top 10% of customers generate 50% of profit. The objective is to keep the best customers (who are on 9 times more valuable than the average customer) and deciding which to forfeit to competitors (the worst of which are 44 times less valuable than the best customers).

Retailers must review their strategy through the lens of customer profitability. Think of it in terms of customer acquisition costs, lifetime value and retention economics. Pursue a customer-centric strategy that emphasises retaining high value customers and boosting the size (and value) of their purchases. Curate products and offerings that appeal to your most profitable shoppers to encourage full price sell-through and attract new consumers who are more likely to convert to repeat buyers.

*2018 vs 2019 unless otherwise noted

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LEVERAGE CUSTOMER-CENTRIC METRICS AND KPIS TO MEASURE AND TRACK YOUR PEAK PERFORMANCE FOR GROWTH AND PROFITABILITY

MARKETING SPEND

64%

Marketing spend is up 64%. Free shipping is up 3%. Promotions are up 31%. Yet, customer acquisition is down 9% . Retailers must strike a balance between winning Christmas shoppers and impacting the bottom line.

"Because of DynamicAction, we are now looking at new customer acquisition metrics from different perspectives. And the time savings have been huge. I can quickly roll-up data from merchandising and customer acquisition."

-Web Analytics Manager, Leading Footwear and Accessories Brand

PEAK TRADING

Go deeper to analyse customer cohorts by profitability and corresponding discount strategies

Navigating the headwinds presented by the *Retail Vortex* requires more than simply looking at top level metrics such as revenue, AOV, and Units per Transaction. Retailers must go deeper to analyse their customer by profitability and parallel discount strategies that lead to financial outcomes that will sustain the company into 2020.

Converting consumers into profitable customers depends on rapid access to the metrics and KPIs that support faster insights, control of acquisition programs and conversion tactics:

- Sales Trendline and Prediction
- Order Conversion
- Marketing Cost/Order
- Order % using Promotion
- New Customer Trendline and Prediction
- Marketing Cost/New Customer Order

5x

It costs 5x more to attract a new customer than it does to retain an existing customer.
- CMO.com

*2018 vs 2019 unless otherwise noted

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PLAN PEAK INVENTORY ASSORTMENT WITH HIGHEST POTENTIAL FOR PROFITABILITY AND SELL-THROUGH

INVENTORY VALUE
↑ **44%**

UNSOLD INVENTORY
↓ **4%**

The upward trend in inventory value continues in 2019 with a 44% increase YTD in inventory value versus this time last year. Even with increased inventory, retailers are selling through more stock (with unsold inventory down 4%). Retailers may be leaning too heavily on promotions (up 31%), but appear to be more accurately forecasting and stocking the products that their customers want to purchase.

However, the *Retail Vortex* reveals a daunting threat by way of returns – peak returns started rolling in as early as Christmas Day and snowballed into a 26% increase in returned merchandise in the first few weeks of January 2019 compared to the year before. Retailers were stuck with 9% more unwanted inventory versus same time last year – much of which required deep discounts or worse, couldn't be put back on shelves at all.

42%

Conversion Increase

After partnering with DynamicAction, a sportswear retailer achieved a 42% increase in year-over-year conversion rate while maintaining profitability.

PEAK TRADING

Find that sweet spot between overbuying and landing in a disappointing out-of-stock situation by understanding your best products and customers. Identify your most valuable products - in-demand products, with the greatest full-price sell-through and "first purchase" products that lead to high value customers. Pinpoint combinations of products, promotions and customer profiles that most frequently drive full price and/or profitable purchases.

"The amount of insight DynamicAction presented was beyond any other tool I've used to date. It correctly addressed the major pain points we have, primarily views availability. It also gave us insight into products with potential for further growth."

-VP of Direct International Retailer

*2018 vs 2019 unless otherwise noted

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PLAN SHIPPING AND PROMOTIONAL OFFERINGS WITH MORE PROFITABLE OUTCOMES

FREE SHIPPING ↑ **3%**

PROMOTIONS ↑ **31%**

UNITS PER ORDER ↓ **4%***

With Amazon conditioning consumers to expect the lowest price and threshold for free shipping, retailers feel pressure to slash prices and loosen their own shipping incentives. Consequently, we see margins for the digital side of business are thinning YoY. As retailers increase free shipping (up 3% year-to-date) and ongoing use of discounts (4% increase in orders placed on promotions compared to same time last year), efforts to acquire more customers are being met with thinning margins, an average decrease of 4% in basket size* and lower order values (down 4% YTD as compared to same time last year).

"Rather than investing in initiatives aimed at directly increasing the wallet share of loyal customers, companies can benefit from placing greater investment emphasis on leveraging the goodwill and word-of-mouth generated by the loyal base as a source of "warm" acquisitions. That means recalibrating investments to focus on retaining customers with highly satisfying experiences and leveraging their connections to acquire new customers. "

- ACCENTURE, See Beyond the Customer Loyalty Illusion

PEAK TRADING

Identify which products have enough margin to still be profitable after free shipping and promotional costs

Expect Amazon to continue to "up" the peak trading ante of competitive offerings with their Prime deals and 1-day shipping (already same-day delivery in select areas across the U.K.) Identify products that the marginal wiggle room to be profitable after free shipping and discounting costs. Package these products together with creative VIP offerings that create an exclusive shopping experience to drive larger (and more profitable) basket sizes and positive word-of-mouth from your loyal base.

65%

increase in inventory sell-through

With DynamicAction, a U.S. fashion retailer identified £750K of unsold inventory – 80% of which had been sitting for over 50 days. Within 6 weeks, the retailer was able to reduce this sitting inventory by 65% and offer their valued customers the most competitive pricing on the most popular brands in order to ensure proper exposure across their inventory.

*NA + EMEA data for 2-3 UPO group
2018 vs 2019 unless otherwise noted

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BALANCE HOLIDAY MARKETING SPEND ON CATEGORIES THAT DRIVE THE ACQUISITION OF PROFITABLE CUSTOMERS AND ORDERS

Marketing spend played a massive role in the post-Christmas *Retail Vortex*. Marketing spend soared 94% during the 2018 peak shopping season (1 Nov 2018 – 30 Dec 2018) compared to the previous holiday season. And despite the increased spend, retailers acquired 12% fewer new customers.

NEW CUSTOMERS ↓ **9%**

1-2 REPEAT CUSTOMER ↓ **2%**

AVERAGE ORDER VALUE ↓ **5%**

The downward trend of less return on an increased marketing spend continued in the first half of 2019. New customer acquisition was down 9% and conversion of a customer from 1st to 2nd time purchase was down 2%, With average order value down 5% YTD, even when retailers succeed in capturing the attention of customers, they are not purchasing as many items per transaction.

PEAK TRADING

Focus on products and customer profiles that drive the biggest profit.

Increases in marketing spend are typically tied to undesirable inventory positions and the ever-increasing cost of attracting and retaining consumers. Instead of spending to aimlessly attract any potential customer, focus on customer profiles, products and promotional offerings that drive the highest average order size, full-price sell-through and profitable sales.

£30B **Yearly cost to the worldwide retail industry from unproductive marketing**

- IHL Study

CASE STUDY

When a £5.5B global retail brand partnered with DynamicAction to do an in-depth analysis of their product data in correlation to average order value, they found that a top selling robe had a 20% overlap with a top selling intimate, and these products together had a very high full price sell-through.

However, this lucrative product combination was neither being marketed nor merchandised together.

This led to the retailer making corrective actions online as well across other channels- including placing the robes in fitting rooms and altering in-store displays.

*2018 vs 2019 unless otherwise noted

ABOUT THE RETAIL INDEX

2019 Year-to-Date Retail Index is an analysis of more than £10.5B in consumer transactions globally from 1 January, 2019 – 1 June, 2019. The transactions analysed account for nearly £4.5B in North America and more than £6B in Europe.

The *Retail Vortex* is an analysis of more than £9.53B in consumer transactions globally from 25 December, 2018 – 14 January, 2019. The transactions analysed account for more than £4.4B in North America and nearly £5.1B in Europe.

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

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ABOUT DYNAMICACTION

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

DynamicAction empowers retailers with a clear path to improved performance with AI-powered metrics. It enables faster, better decisions to deliver profit, analytics and visualisations for immediate insights and prescribed actions to take online and in-store.

Forward thinking retailers across the globe rely on DynamicAction's advanced analytics and retail-built practices to holistically run more efficient organisations and formulate laser target strategies to uncover their most 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, DynamicAction has offices in London, Sofia and Dallas.