

RE-ENGINEERING RETAIL:

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



DynamicAction Retail Index:

2016 Year-in-Review and 2017 Outlook

An analysis of more than \$9 Billion in consumer transactions globally. Those transactions account for more than \$6 billion in North America and nearly \$3 billion in Europe

PROMOTIONS & MARKDOWNS

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

44% of all orders for the year sold on promotion



67% sold using a markdown



Leading to a **24%** 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 holiday 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 North America, merchandise returns are also on the rise:



Returns were **↑8%** YoY and **18%** during the holidays



Return rates are **↑** headed into 2017 as well, with a **23% increase** 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 customer dissatisfaction.

SHIPPING

Throughout 2016, North American retailers struggled to live up to shipping promises:



Orders shipped late **↑48%** in 2016

However, they had **tightened up operations just in time for the holidays:**

Orders shipped late **↓6%** during the holiday season versus 2015

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

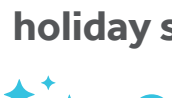


42% of orders were shipped free in 2016



Over the holidays, free shipping was used on an average **7%** less orders than 2015

EXPRESS SHIPPING is still a holiday season phenomenon:



Express orders **↑15%** during the holiday season and **↑51%** in Christmas week alone

However, express shipping was **↓55%** for the whole of 2016

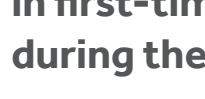
REAL LIFE:

An apparel retailer tested free shipping thresholds aggressively in 2015, and decided to remain consistent with free shipping at a \$100 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, North American retailers have struggled to bring in first-time buyers, with new customer orders **↓12%** YoY and **↓5%** during the holiday season



However, through re-focused efforts on converting current customers, North American retailers were able to shift **1st-** to **2nd-** time buyers **↑3%** YoY & **↑4%** during the holiday season

Detracting from the uptick in customer conversion, marketing cost was **↑** throughout 2016:



2015 2016 **↑5%** for the year, **19%** during holidays

NEW RETAIL DIRECTION: MARKETING



Retailers are beginning to pull back on marketing spend. An average **16% less** spent thus far in January 2017 versus 2016.

INVENTORY EFFECTIVENESS

Retailers in North America held more inventory throughout 2016 than 2015, as many entered the year in an overstocked position:



The value of inventory held **↑12%** in 2016

Yet, over the holiday season, inventory levels actually **evened out** and were **virtually flat YoY**, leaving them in a similar stock position to early 2016.

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 homewares retailer used overstocked items as the lead in discount email offers during holiday 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 January 1, 2016–December 31, 2016 in comparison to the previous year. Any references to the "holiday season" indicate November 1–December 31, 2016 versus the previous year and any references to 2017 indicate January 1–10, 2017 versus the previous year.

