DYNAMIC ACTION

The new reality of retail: How top merchandisers will thrive in the years ahead.

From the top four trends that merchandisers must embrace in the year ahead, to the newest metrics by which retail success will be measured, this is your guidebook for creating a successful merchandising career.

Welcome to the Merchandising Manual. This insider's guidebook offers actionable advice for navigating the major shifts occurring in retail.

WE SEE FOUR MAJOR TRENDS HAPPENING IN GLOBAL RETAIL:

1. Merchandisers are caught between operating at the speed of the customer and making data-driven decisions from an overwhelming amount of information.

2. Retailers are balancing human expertise with automation to achieve data-driven, customer-centric merchandising operations.

3. Executives are asking new questions about their merchandising operations and positioning their teams to find the answers and take faster action.

4. Merchandising teams are updating their metrics and KPIs to measure merchandising success for the new era of retailing.

TREND #1

MERCHANDISERS ARE CAUGHT BETWEEN OPERATING AT THE SPEED OF THE CUSTOMER, AND MAKING DATA-DRIVEN DECISIONS FROM AN OVERWHELMING AMOUNT OF INFORMATION.

With almost unlimited choice and immediate access, today's digitally-enabled consumers are empowered and constantly redefining the shopping experience. They are seamlessly shifting between a range of devices, and are researching, shopping and even returning in new and complex ways. They also leave a "digital exhaust"—a cross-channel breadcrumb trail made up of every impression, click, purchase, loyalty credit, basket addition and return.

Information available about customers is nearly infinite and constantly changing.

Contributors to this data influx include:

• Customer interactions with brands via multiple devices

• Customers using various payment options

• Tech-empowered one-to-one personalized marketing

• Customers changing their preferred commerce channel on a whim

And that's just the tip of the data iceberg.

There are three common drawbacks merchandisers are dealing with as a result of the inundation of data now available across the organization:

1. Merchandisers are stuck combining the data themselves or waiting for someone else to complete the task.
2. Even after teams combine the information, they cannot apply analysis, correlation and attribution using the same experience-driven analytic frameworks of the past.
3. If teams do have time to analyze, correlate and make attributions, often the correct action to take remains unclear.

Example: Why is sales volume falling for ProductID X?

Typical Questions

- Is the product actually live on the website?
- Is the product in-stock?
- Is it available in the most popular sizes and colors?

Unasked Questions

- Can someone find this product if searching for it?
- Is there enough traffic to the product page?
- Are the right customers viewing it?
- Is the image correct?
- Is the product page description accurate?
- Can it be added to the cart?
- Are the ratings low?
- Was the promotional message aligned?

To achieve a tolerable degree of certainty, you would need to check across all of these variables (and more!) requiring access to or assistance with multiple data systems within the business. If improvement in sales volume for ProductID X is detected, you can't be certain as to why, though you hope your actions taken were the reason.

Worse, if you take action, such as changing the description or reducing price — and no sales improvement is found — you are left grasping at straws after eliminating only one of the many levers available to pull.

If all you have is data, some comparison calculations and trend lines, you have been given just enough information to fuel frustration.

Despite a sea of reports, most retailers tell us they still cannot do the following:

- Measure the profit impact of promotions
- Align product availability with marketing exposure
- Understand customer profitability by segment
- Match customers with the right products
- Protect margin by knowing when another action is more profitable than a price reduction
- Receive alerts when there is a problem or major opportunity

Data analysis should help you determine the right course of action, but it often spawns more questions that require hours and days of work (or margin-eating trial and error), hopefully leading to a potential answer.

At the end of the day, being a customer-centric retailer means providing an environment where your organization is able to connect, understand and take action on the massive amount of data the customer provides.

Retailers who can see the benefits of this new customer-driven era and swiftly join the revolution will drive change across the retail industry to not only produce sales and profit growth, but also happy and loyal customers.

Data-empowered merchandisers are uniquely positioned to bring cohesiveness to retail, advocating for action and dynamic collaboration. The end result is they have the power to create product stories for their unique customers. They will be armed and able to make well-informed data-driven strategic decisions.

TREND #2

RETAILERS ARE BALANCING HUMAN EXPERTISE WITH AUTOMATION TO ACHIEVE DATA-DRIVEN, CUSTOMER-CENTRIC MERCHANDISING OPERATIONS — IN DIGITAL, STORE AND OMNICHANNEL ORGANIZATIONS.

> *"You can't hire enough people to go through all data on all products so automation is critical —even more so now that there are technologies available to do it for us. Previously it would have taken months to process all the data and by the time you could, the data has changed, making your findings irrelevant. Automate the data-crunching to free up your team to focus on strategy and action. Invest in systems to find the insights, and reserve your human capital for strategy, execution and brand building."*
>
> Sahal Laher, Former Chief Digital Officer and CIO, DXL Group

Previously, major retailers invested only in hiring data scientists. A gap formed between the "haves," those retailers with enough scientists and the organizational structure in place to take rapid action on their connected data sets, and the "have nots."

A retailer might have previously fallen into the "have not" category because of the competitive market for data scientists, but that too has changed. Now, with C-level commitment to acquiring and using optimal technology tools, the "have nots" are leapfrogging over the "haves."

The new breed of merchandisers are committed to owning retail science, not because they are themselves data scientists, but because they are empowered to use the science at their disposal. They are empowered by technology and avoid the reporting and analysis bottleneck by simply relying on software to deliver the information they need.

Merchandisers are no longer confined to the few levers that have always been available — free shipping, running a promotion, or running an email campaign on a regular schedule. The data science merchandising world is not hamstrung by the old-world rules. Retailers that are investing in solutions to automate data analysis and find immediate insights can reserve their human capital for strategy, execution and brand-building.

Customer-centric merchandising should aim to create seamless and unified customer experiences across all shopping channels. This requires:

- Connected and actionable data on customer, product and profit

- Data from stores, eCommerce, mobile, catalogue and marketplaces

- The ability to harness this connected data to elevate their entire tech stack to enable fast, informed decision-making and action-taking for connected customer experiences in all channels

Below are a few sample use cases for how a prescriptive analytics solution enables merchandisers to understand their customer, perfect their brand experience and take faster and more efficient action to deliver superior cross-channel service:

- **Customer Targeting:** Leverage omnichannel view of customer activity to contact customers based on channel isolation, promo usage, repurchase risk, profit history, return history, web engagement and more.

- **Ship-from-Store Profitably:** Adjust Ship-from-Store procedures and/or ship points given shipping profit and shipment timing.

- **Stock Allocation:** Adjust allocation to stores given online demand signals (sales, views), conversion, reviews and returns. Adjust allocation to warehouses given store demand signals.

- **Sales Velocity/Pricing Disconnect:** Quickly identify store-web price mismatches and sales challenges resulting from competitive pricing discrepancies.

- **Tech Stack Optimization:** Export transformed data and new metrics to your existing technology platforms for semi-automated optimization. For example: send the list of negative lifetime value customers to your email platform to suppress them from your promotional campaigns.

> *"Having DynamicAction is like having an additional 140 hours of analytics and reporting work that your team doesn't have to address each week. Rather than skimming through numbers and looking for the 'a-ha,' we could just get straight to action."*
>
> VP of Direct

TREND #3

EXECUTIVES ARE ASKING NEW QUESTIONS ABOUT THEIR MERCHANDISING OPERATIONS AND POSITIONING THEIR TEAMS TO FIND THE ANSWERS AND TAKE ACTION, FASTER.

Success in current retail requires new, in-depth questions around inventory, returns, marketing, pricing and customers. Even more so, it requires being able to quickly answer those questions based on all available data and take faster, more efficient action to maximize every financial opportunity.

CRITICAL QUESTIONS EVERY RETAILER MUST ASK

Inventory – Views Alignment

Aligning inventory to web product views is comparable to an online planogram. In stores, items in the shop windows will typically sell well, and putting sold out or low inventory products in the window is clearly a poor strategy. On the web, we have the luxury of measuring what customers view and what customers abandon (put back on the shelf). These questions represent a new way of working that successful web merchandisers must adopt.

1. Which products should be exposed or marketed together to capitalize on lift and maximize profit?

2. How much inventory is not getting viewed on the website? How can I quickly identify those products and any potential problems?

3. Which products are receiving too many or too few views, given their inventory levels, conversion, profitability, review ratings, time on site and fragmentation?

4. For which product categories are we under or over-optioned, given viewing demand?

5. What percentage of our product views land on in-stock, non-fragmented items?

6. What technology am I using to make automatic changes to inventory processes?

Returns

Returns have a sobering impact on retail profitability. They can be fueled by misbehaving customers who take advantage of a customer-first return policy and factors under the company's control, such as poor product descriptions, unorganized marketing programs and disconnected order fulfillment. However, those losses ($642.6 billion annually worldwide) can be reduced and recouped by pinpointing the problems at various levels of the enterprise.

7. What are the most efficient actions we can take to reduce returns?

8. What percentage of customers return 100% of what they purchase (e.g. "free rentals")?

9. What percentage of customers frequently return the majority of any order containing substitutable items (e.g. "home dressing room")?

10. What percentage of High Value/Most Profitable customers return products with a return rationale under our control (e.g. damaged, differs from web description, wrong item)?

Marketing Spend

Organizations have the ability to know precisely how every digital marketing dollar translates into revenue and profit – or doesn't. It's time for retailers to go beyond return on ad spend and begin to understand marketing results in terms of stock alignment and profitability.

11. How much money are we spending on marketing campaigns that send customers to products that are sold out or highly fragmented?

12. For which products should we curtail marketing spend because we will sell through the item without the paid exposure?

13. Which marketing initiatives, promotions, and customer segments are the most profitable, once you consider all costs including returns?

14. How is my technology working to optimize marketing campaigns efficiently?

Warehouse Operations

When retailers make better decisions about how to promise and fulfill customer orders, the result is improved customer satisfaction. Retailers then have an opportunity to focus on their most profitable customers and ensure they receive a VIP experience. They can also place emphasis on exceptional service for new customers and execution that turns one-time buyers into loyal repeat purchasers.

15. What percentage of orders from High Value/Most Profitable customers get shipped within 24 hours? What percentage are delivered after their delivery promise date?

16. Are we decreasing our average days to ship for new customer orders?

17. For which stores and/or warehouses have we over or under-allocated for our most profitable products?

Pricing

When an item isn't selling well, oftentimes retailers are quick to execute a profit-eating price markdown. Fortunately, timely data is now available to point to potentially less expensive corrective measures that will still allow retailers to make plan.

18. Given inventory levels, conversion, profitability, review ratings, time on site, fragmentation, and competition, for which items do we need to consider a price reduction?

19. For which overstocked products is an increase in exposure a more profitable action than a price reduction?

20. Which products require a pricing reduction due to lower competitive prices?

21. How is my technology working to make pricing changes efficiently?

Customers

What if you could create a merchandising strategy specifically geared towards cultivating a customer base that collectively was more profitable than last year's customer base? Year after year, certain products and collections are responsible for attracting, keeping and re-acquiring customers that are profitable. Executives need to be able to identify these goldmines—even in omnichannel organizations—point the merchandising teams in their direction, and let them go to work.

22. Which first-purchase brands lead to High Value/High Lifetime Profit customers?

23. Which campaigns and promotions perform the best at luring back previously High Value Lapsed customers?

24. How is my technology enabling my organization to create optimized customer experiences that precisely match customers with products that generate maximum revenue and profit?

POSITIONING YOUR MERCHANDISING TEAM TO ANSWER AND TAKE ACTION ON THESE QUESTIONS

A reporting solution alone cannot enable a merchandiser group to answer and take swift action on the above questions. Merchandisers must be armed with the proper data science tool to make well-informed, data-driven decisions and take immediate action.

Systems you deploy should already know the questions to ask of your data and automatically provide daily answers, as well as alert you to potential opportunities for action.

Prescriptive analytics allows merchandisers to clearly depict what's going on, why, what will happen if nothing is done, the specific actions needed to change the outcome and the financial impact of those actions. Retailers can understand what actions to take in order to make a noticeable difference next week, month, quarter or year and, most importantly, if your actions were effective.

> *Companies can benefit from prescriptive analytics firms like DynamicAction which runs a set of proprietary algorithms to find mistakes among retailers' myriad and disparate data sets (e.g., site analytics, merchandising systems, content management systems) to provide recommendations on what the retailer specifically must address.*
>
> Forrester Research

Forrester Research group predicts that in 2018, the adoption of prescriptive analytics — analytics that suggest actions based on optimal outcomes — will overtake predictive analytics.

Prescriptive data analytics is an ideal solution for any retail organization whose teams engage in the following activities:

- Interact with data on a weekly and/or daily basis
- Combine, collate, distribute and analyze reports
- Oversee more than 25,000 online transactions per year

PRESCRIPTIVE ANALYTICS IN ACTION

EXAMPLE 1:

A merchandising team recently used DynamicAction Prescriptive Analytics to determine that although they had 60% coverage for a product, the demand for 'black' in the three most common sizes was not being met. In one week, over 25,000 potential customers viewed the product at a color/size that was not available for purchase, although inventory showed plenty of stock. The solution was better buying/planning, not running a BOGO (Buy One Get One) or reducing the price.

EXAMPLE 2:

The VP of eCommerce wanted to know why sales of a popular product line were down, and the senior merchandiser explained that seven reviews came in over the weekend complaining about the fit of the line's most popular product. The merchandiser had already called the vendor, who admitted there was a mistake in manufacturing; communicated with the marketing team, who paused campaigns for the product; and redirected the spend towards a good-selling similar product with plenty of inventory across all SKUs. The junior digital merchandiser removed the problem product from the website and communicated the fit issue to the retail store merchandisers. The merchandiser knew the rest of the products in the collection were selling as expected.

TREND #4

MERCHANDISING TEAMS ARE EVOLVING THEIR METRICS AND KPIS TO MEASURE MERCHANDISING SUCCESS ACCORDINGLY IN THE NEW ERA OF RETAILING.

No longer is it just about joining data. Merchandisers need defined opportunities for action that:

1. Are able to be addressed
2. Have the greatest financial impact
3. Are in line with their goals

7 KPIs that Drive Profit

If you are a retailing executive who is focused on driving profit for your business, it's important to ensure that teams across the various functions are also aligned with that goal. The first step towards a profit-minded organization is to question whether each team's KPIs are designed to monitor and improve overall profit for the business. Historically, retail product teams have been focused on the KPIs for which they feel most accountable. For Site Merchandising, that may mean Product Conversion and Product Views. Marketing might be focused on Retention Rates, while Buying/Planning is striving to maintain healthy Margins, Inventory Value and In-Stock Rates. While these metrics are important, bringing in additional KPIs examining profit drivers ensures the health of the business is also priority.

7 KPIS YOU SHOULD BE USING ·······························

Site Merchandising KPIs

1. **Sales -> Retailing Profit**

   Driving top-line sales has always been the focus of a retail product organization, but just how is retailing profit impacted by the efforts to drive sales? Understanding where profit is being gained or lost across an organization is vital to determining strategies that can be discovered on the back of sales efforts.

2. **Product Views -> Product Profit/View**

   Site Merchandisers are keenly aware of two factors that are vital to encouraging sales: how many product views are being generated each week, and ensuring key items (i.e. high converting, high inventory) are receiving visibility. Utilizing Product Profit/View alongside Product Views ensures that direct exposure is maximized for those products that will drive profits for the business, whether that be through site content or marketing efforts.

3. **Product Conversion -> Demand Availability**

Product Conversion can serve as an indicator as to how well the current product offering is being received by the customer. Retailers should build on customer desirability by ensuring that Demand Availability, the in-stock rate for a group of recently purchased items, is considered to promote continued momentum and profitability for these products (particularly for items at full-price).

Marketing KPIs

4. **Customer Retention Rate -> % Customers Last Purchased -> 6 Months With High-Moderate Profit/Order**

Of course, customer retention is always top of mind, but are you focused on retaining the right customers? Narrow your focus and marketing dollars to those customers who are profitable for the business.

Buying KPIs

5. **Inventory Value -> Inventory Value: Not on Site/Not Viewed/Viewed, Not Purchased**

How much in potential profit is sitting in the distribution center without any customer views? Monitoring Inventory Value on-hand for a category is one thing, but having the ability to examine profit being left on the table with inventory that is not viewed, non-converting or is not even available for purchase is quite another in terms of informing a strategy to move through the stock. Ensuring that products are receiving customer views is the all-important first step towards reducing inventory, promoting a healthy open-to-buy mentality and improving profits for a category of business.

6. **Category In-Stock Rate -> Views Availability**

Maintaining a high in-stock rate for a given category is important in driving sales activity. Views Availability goes beyond looking at category in-stock rates by aligning product views and inventory data to provide a complete picture of how in-stock a retailer is for the products that are receiving customer interest. Sorted by Product Views, the Views Availability metric becomes a powerful indicator of where customer interest needs to align with inventory availability in order to continue driving sales and profits for these items.

7. **Margin -> Promo Margin Reduction % & Markdown Margin Reduction %**

Buying and planning teams are constantly striving to maintain excellent margins for their business. Examining the Promo Margin Reduction % and Markdown Margin Reduction % for a given period can provide insight on just how significantly products were impacted by reductions in price, thereby reducing profitability for those items.

THE NEW DATA-DRIVEN MERCHANDISING BENCHMARKS

Profit-per-View

There is perhaps no better way to measure online merchandising efficiency than understanding profit per product view. The metric offers guidance as to where you might direct exposure to maximize profit and establish boundaries for how much you might be willing to spend to drive additional views via paid marketing channels.

Inventory Not viewed

Top retailers are getting customer eyeballs on 84% of the products on their websites, which means that on average 16% of products are not getting a single view. If you ask merchandisers how much inventory they have that is not being viewed, they are likely to tell you the answer is "none" or "very little." Yet, 9 times out of 10 (when they have connected data across inventory and web data views), they realize that processes break down, human error can slip in, and that they indeed have inventory in warehouses and stores with no product views associated.
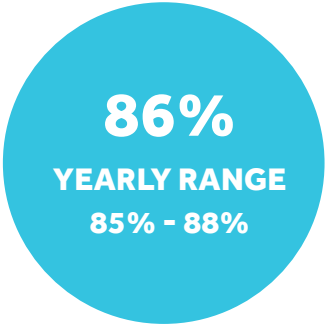
16%
YEARLY RANGE
12% - 22%

Full Price Units Sold %

91%
YEARLY RANGE
87% - 96%

Top retailers are selling 91% of their inventory at full price. Markdowns are costly. For many seasonal retailers, even slightly closing the gap of full price units sold could result in meeting or exceeding plan. By closely monitoring this metric, retailers can course correct through delaying a markdown date, increasing a product's exposure, altering the degree of markdown, or doubling down on specific categories or brands.

Views Availability

For top retailers, 86% of the products that customers are looking at on their websites are in-stock and available for purchase. Merchandisers set to succeed in 2018 are not simply looking at an inventory ratio of what is in stock versus out of stock. They are closely monitoring the experience of their customers. To deliver an exceptional client engagement and maximize your ability to sell, it's important to be in stock, but it's even more important to be in stock for the products that customers are viewing, searching and demanding. Views Availability helps you to determine the availability of products that your customers are actually seeking.

86%
YEARLY RANGE
85% - 88%

SKU Availability

83%

**YEARLY RANGE**

79% - 87%

On average, 83% of the products (particular sizes, colors, etc.) a retailer has to sell are available for purchase. Merchandisers running a lean, efficient organization are taking Views Availability a step further. They ensure that they are in-stock for the sizes, colors, materials and styles that their customers are seeking, while keeping as little unnecessary inventory on hand as possible. Through a complete understanding of how in-stock you are in relation to the SKUs that your customers seek, retailers are able to sell more and deliver a great experience while carrying fewer sizes, styles and SKUs in the warehouse — thus, decreasing overhead and increasing operational efficiency.

Marketing Cost per View

With finite marketing budgets, merchandisers and marketers need to work together to ensure that precious marketing spend is focused on helping merchandisers achieve their targets. Are we wasting marketing budget by sending views to out-of-stock products, highly fragmented products or to products that will sell through without paid exposure? With a thorough understanding of Marketing Cost per View merchandisers and marketers can work in concert to maximize marketing spend.

CONCLUSION ••

It is imperative for retailers to operate at the speed of their customers while making informed data-driven decisions. Perhaps impossible in years past, prescriptive analytics solutions are the change agent in this journey by balancing powerful automation with human expertise. Retailers are positioned to easily answer questions about their customers, inventory and product that they've never before dared to ask. Executives are using new KPIs that drive profit more effectively. Armed with the ability to defend their client base against the competition, businesses and brands are now making moves to take (back) market share. The technology is enabling merchandisers to focus on the art of their work, while embracing the science of the new data. Bottom line, smart businesses are getting answers and taking action faster using DynamicAction.
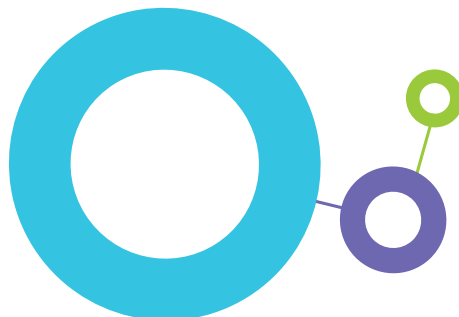
MERCHANDISING WEEK BEFORE PRESCRIPTIVE ANALYTICS

Signals of a DELAYED (yet, typical) merchandising week:

MONDAY
- ❶ Request and wait for data from analysts
- ❶ Try to understand if and why performance changed from the previous week, against the year, or target
- ❶ Combine and collate data sets with spreadsheet software
- ❶ Choose which version of the data will be the source of truth
- ❶ Print and circulate reports

WEDNESDAY
- ❶ Create task lists for decisions made on Tuesday using data from Monday
- ❶ Delegate action items to other groups hoping they will get done
- ❶ Continue trying to understand why performance changed

FRIDAY
- ❶ Finalize changes for the week made from data from Monday
- ❶ Cancel or postpone a strategic planning meeting or attend under-prepared
- ❶ Prepare to fully devote the upcoming Monday to reporting

M T W T F
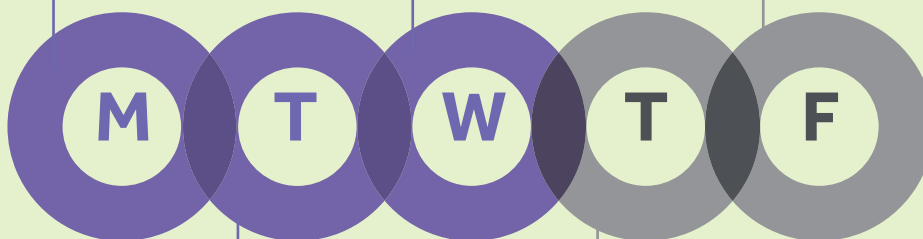
TUESDAY
- ❶ Choose which trends should be your focus— without understanding the full scope of financial impact
- ❶ Defend your decisions— without strong statistics to back you up
- ❶ Focus on a fire drill that resulted from a knee jerk reaction
- ❶ Accept the risk that your focused attention may not make a noticeable difference

THURSDAY
- ❶ Work independently of sales, operations, customer service and marketing to take seemingly logical action
- ❶ Make merchandising plans related to data different from other groups' data
- ❶ Postpone action items due to lack of time
- ❶ Discuss changing decisions made earlier in the week

MERCHANDISING WEEK WITH PRESCRIPTIVE ANALYTICS

MONDAY
- Immediately access data you need to make well-informed, data-backed and defendable decisions that make a notable improvement
- Quickly understand performance changes and comparisons to plan
- Create task lists for decisions made and delegate action items knowing they will be accomplished Tuesday

WEDNESDAY
- Manage action plans and monitor changes being made
- Lead or participate in strategic planning meetings

FRIDAY
- Apply your competitive analysis and point of view on trends to your merchandising strategy
- Prepare to fully devote the upcoming Monday to making important, focused decisions and impactful plans of action

M T W T F

TUESDAY
- Work collaboratively with sales, operations, customer service and marketing to take logically prioritized action
- Make merchandising plans from a single source of truth
- Efficiently manage the changes being made for the week

THURSDAY
- Research trends in your industry and develop your point of view
- Conduct competitive reviews
- Review the progress for the week

Signals of an **OPTIMIZED** merchandising week:

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 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 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.

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