

REWRITING THE RETAIL AGENDA

How retailers began to promote smarter and spend less in 2017, and the actions needed to reengineer organisations and profitability in the year ahead



Any consumer who shopped in 2017 realised the new reality of retail: Discounts are everywhere, not just during the festive season, but throughout the year. However, retailers learned some tough lessons from the margin drain in 2016 to plan smarter and more efficiently in 2017.

The DynamicAction Retail Index: 2017 Year-in-Review & 2018 Recommendations

An analysis of more than £5.1 billion in online consumer transactions. Those transactions account for more than £4 billion in North America and nearly £1.1 billion in Europe.

PROMOTIONS AND MARKDOWNS

After consistent upticks in markdowns and promotions in Europe throughout 2016, retailers held steady on promotions and lessened their reliance on margin-eating markdowns in 2017.

Orders using a promotion \uparrow an average **2%** **2017 vs 2016** Orders using a markdown \downarrow **27%**

In 2017, margins were impacted more by promotions (BOGO, gift with purchase, site-wide sale) and less by markdowns (product discount, price reduced from £100 to £60), compared to 2016.

BIG SALE
SPECIAL PRICE

As a result of promotions \uparrow **5%** **2017 Margin Reduction vs 2016** As a result of markdowns \downarrow **34%**

TACTICS FOR PROFITABLE PROMOTIONS

- **Ensure promotions aren't stackable in order to further protect margins.**
EXAMPLE: Using advanced analytics, a worldwide apparel, footwear and accessories retailer discovered 2 different promotions were unintentionally allowed to be stacked, costing them thousands per day in lost revenue.
- **Know which promotions are influencing sales and profit.**
EXAMPLE: An international apparel retailer gained control of their promotions programme and began strategically using promotions to drive sales and profit at a rate needed to make plan.
- **Understand how promotions impact categories not included in promotions.**
EXAMPLE: A footwear retailer found that a promotion only applicable to non-clearance items drove thousands of pounds in incremental demand for clearance items.
- **Develop and manage promotional strategies at the category level.**
EXAMPLE: During the Christmas season, an international womens apparel retailer was able to utilise advanced analytics to develop and execute a promotional strategy that relied on fewer site-wide promotions and fewer hard markdowns and instead used category-specific promotions where the margin was less impacted.

MARKETING & CUSTOMER ACQUISITION

As in 2016, European retailers continue to increase marketing spend in an attempt to attract new customers and retain existing ones, yet have not seen the results anticipated..

Marketing cost was \uparrow **57%** in Q1 2017 vs Q1 2016, with weeks as high as **142%** increase early in the year.

Retailers ended 2017 at an average **5%** increase in marketing cost for the year, largely counteracting high early year spending with a marked decrease at the end of the year: **15%** \downarrow in December 2017 vs 2016.

Attracting, acquiring and retaining customers has been hard for European retailers.

New customers orders in 2017 were \downarrow an average 2%

Customers converting from 1st-to-2nd time buyers were \downarrow **9%** in 2017

FACT Despite a reduced number of new customers, 1st-time buyers were the most profitable segment of buyers for European retailers in 2017. In fact, they were on average **10% more profitable** for retailers than 11+ time buyers.

RETURNS & SHIPPING

European retailers rushed to keep up with consumer expectations in 2017. Some of the costlier shifts in consumer expectations show a need for better logistics and shifted retail economics.

Returns are impacting retailers more than ever, with the value of returns \uparrow an average **33%** in 2017.

The consumer's expectation to receive free shipping has continued to rise, with an average **9%** increase in orders shipped free in 2017.

2018 RECOMMENDATION

Top questions to ask your team about returns & shipping in 2018:

1. What are the **most efficient actions** we can take to reduce returns?
2. What percentage of customers **return 100%** of the money purchase (e.g. "free rentals")?
3. What percentage of customer **frequently return the majority of any order** containing substitutable items (e.g. "home dressing room")?
4. 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**)?
5. What percentage of orders from **High Value/Most Profitable Customers get shipped within 24 hours**? What percentage are delivered after their delivery promise date?
6. Are we **decreasing our average days to ship** for new customer orders?

INVENTORY & AVAILABILITY

Retailers in Europe have held more inventory in 2017 vs 2016:

25% increase in inventory held in 2017

Retailers have started 2018 with a significantly higher level of inventory than last year.

64% increase in inventory value in December 2017.

65% increase in inventory value thus far in January 2018.

INDUSTRY INSIGHT

Successful retailers are using new retail metrics to drive success:

Views Availability

How much inventory is available that shoppers are actually looking at. By aligning product views and inventory data, retail product teams can focus on maintaining inventory levels and increasing visibility for items that hold customer interest and drive sales.

Retailing Profit

Product profit + Shipping Profit - Marketing Costs - Other Opportunity Costs (GWP or Item Promotion). Giving your entire organisation access to this metric means everyone is aware of profits generated and is prepared to take the necessary steps to improve upon it as a business.

Inventory Value: Viewed, Not Purchased

Successful retailers examine products in order of inventory value, which means retail product teams are prioritising items that are jamming up their open-to-buy or have significant stock, thereby increasing the probability of sales and reducing the likelihood of inventory occupying valuable warehouse space.

FINANCIALS

Average Order Value was \uparrow **7%** in Europe in 2017.

Units-Per-Order were \downarrow **14%** in Europe in 2017.

COMPARISON FROM ACROSS THE POND

Both AOV and Units-Per-Order **remained flat** for North American retailers in 2017.