

REWRITING THE RETAIL AGENDA

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



Any consumer who shopped in 2017 realized the new reality of retail: Discounts are everywhere, not just during the holidays 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 \$7 billion in online consumer transactions. Those transactions account for more than \$5.5 billion in North America and nearly \$1.5 billion in Europe.

PROMOTIONS AND MARKDOWNS

Although consumer expectations for discounts are higher than ever, successful retailers protected margin in 2017 by balancing planned promotions with decreased marketing spend.

Orders using a promotion ↑ an average **1%** **2017 vs 2016** Orders using a markdown ↓ **5%**

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.

As a result of promotions ↑ **5%** **2017 Margin Reduction vs 2016** As a result of markdowns ↓ **8%**

BIG SALE
SPECIAL PRICE

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 program 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 U.S. based footwear retailer found that a promotion only applicable to non-clearance items drove thousands of dollars in incremental demand for clearance items.
- **Develop and manage promotional strategies at the category level.**
EXAMPLE: During the holiday season, an international womens apparel retailer was able to utilize 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.

INVENTORY VALUE & STOCK AVAILABILITY

Retailers held less inventory in 2017 than 2016:

12% decrease in inventory value

However, retailers are headed into 2018 with a **higher level of inventory** than last year:

36% increase in inventory value in December 2017 vs 2016

7% increase in inventory value thus far in 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 organization 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 prioritizing 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.

MARKETING & CUSTOMER ACQUISITION

There was a concerted focus on existing customer marketing efforts during 2017 vs 2016.

Rewarding Retail Tactics:

Although every retailer has a different marketing mix that works for their customers and business, many retailers **decreased paid search spend while increasing their efforts in their own, less costly channels like email.**

This tactic paid off.

Although new customers orders were ↓ an average 4% for the year, 1st-to-2nd-time buyers were ↑ 6% during the same time period.

The most profitable purchaser... **2nd-to- 5th- time buyers.**

This group was **13% more profitable** than 11+ time buyers.

2018 CRITICAL METRICS:

New Customer Order %

Know what brands and categories are more efficiently winning new customers.

Customer Profit-per-Order

Know which customers are driving profit and which are hurting your bottom line.

SHIPPING & RETURNS

Returns are impacting retailers more than ever, with the value of returns ↑ an average 34% in 2017.

2018 RECOMMENDATION

4 questions to ask your team about returns in 2018:

1. What are the **most efficient actions** we can take to **reduce returns**?
2. What percentage of customers **return 100%** of what they 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**)?

The consumer's expectation to receive free shipping has continued to rise this year, with an **average 10% increase** in orders shipped free in 2017 versus 2016.

Silver Lining Alert

Retailers are answering customers' shipping expectations better than in the past, with a **22% reduction** in late-to-ship orders in 2017 than 2016.

FINANCIALS

Marketing cost was down fairly consistently in North America in 2017:

Average **22%** ↓ decrease

December had a **47% decrease** in marketing cost and January is ↓ **25%** thus far compared to 2016.

Both AOV and Units per order were flat for North American retailers in 2017.



DynamicAction Prescriptive Retail Analytics
For more information, visit

www.DynamicAction.com or connect with us @DynamicAction on Twitter

This study benchmarks retail trends in key categories from January 1 2017 – December 31 2017 in comparison to the previous year. Any references to the "holiday season" indicate November 1 – December 31, 2017 versus the previous year and any references to 2018 indicate January 1-10, 2018 versus previous year.