2019 YEAR-TO-DATE RETAIL INDEX

KEY LEARNINGS FOR HOLIDAY PLANNING

The Amazons, Walmarts, Nikes and Net-a-Porters of the world have permanently changed the retail landscape. As retail continues its rapid transformation, the brands that prosper are radically customer-centric. 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 on lifetime value and true customer profitability.

To understand the factors that are impacting profitable customer growth in 2019 to date, we analyzed $5.7 Billion in online transactions in North America from January 1, 2019 through June 1, 2019 to identify the top metrics impacting cost-effective growth and improved profitability. The results of our year-to-date analysis led us to dive deeper into a post-holiday event that extensively impacted retail performance, the *Retail Vortex*. The *Retail Vortex* is an analysis of over $12.3 Billion in consumer transactions across North America and Europe from December 25, 2018 through January 14, 2019.

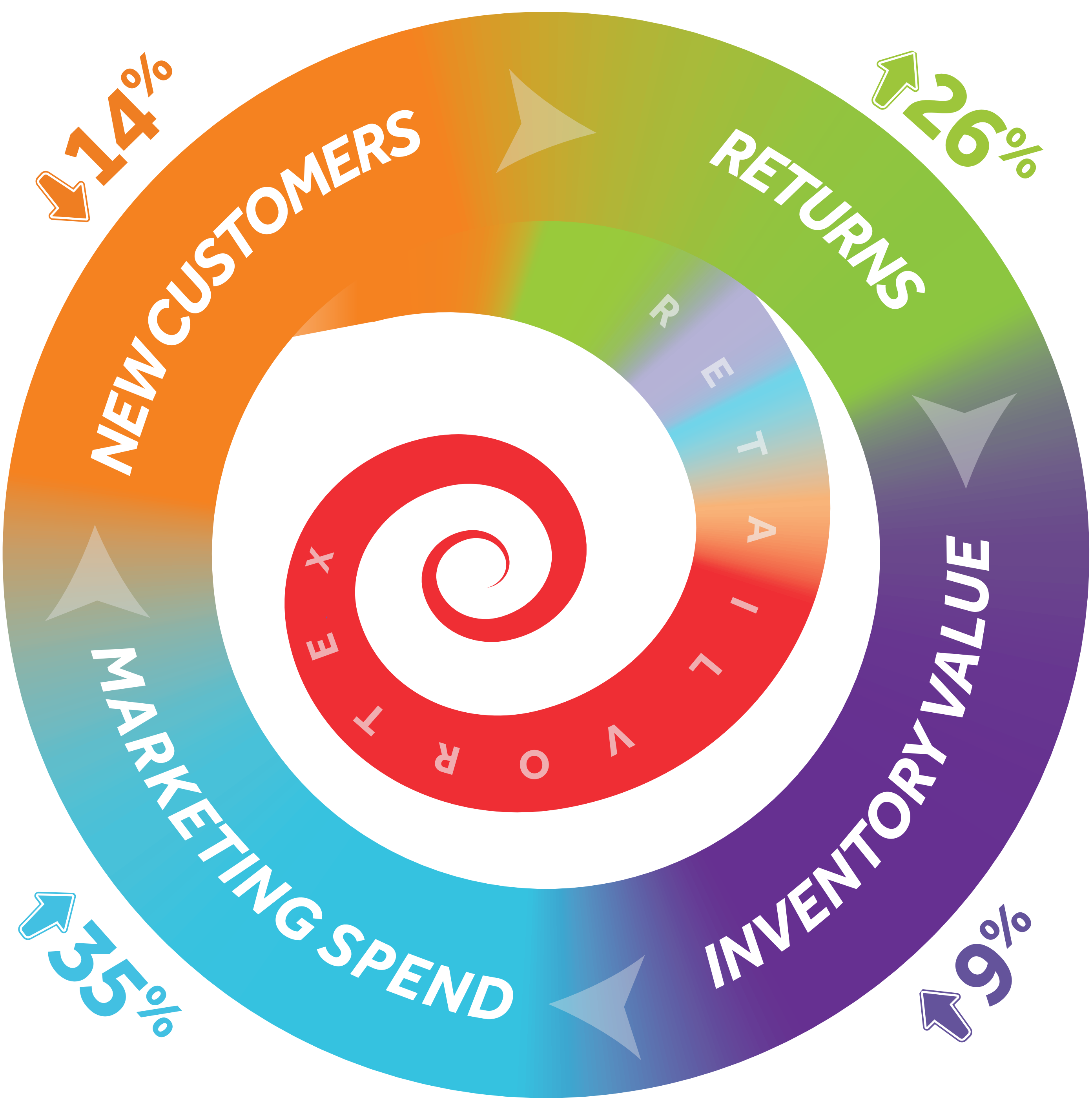
FINDINGS

The Retail Index Year-to-Date and the *Retail Vortex* demonstrate 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 holiday planning for 2019 and beyond.

2019 YEAR-TO-DATE RETAIL INDEX

Major Trend: The Retail Vortex

The Retail Vortex is a post-holiday 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

DYNAMIC ACTION

2019 YEAR-TO-DATE RETAIL INDEX

The Trends

These trends were derived from an analysis of more than $5.7 Billion in North American consumer transactions from January 1, 2019 to June 4, 2019.

OVERALL CUSTOMER PROFITABILITY ↓ 4%

↑ 4% ORDERS W/PROMOTIONS

↑ 9% FREE SHIPPING

ORDERS W/ MARKDOWNS ↓ 1%

↑ 21% RETAILER MARKETING SPEND

↓ 8% NEW CUSTOMERS

NEW CUSTOMER PROFIT ↓ 5%

↓ 6% CONVERSION TO REPEAT CUSTOMER

VIEWS AVAILABILITY ↓ 2%

INVENTORY NOT SOLD ↓ 23%

↑ 18% INVENTORY VALUE

AVERAGE ORDER VALUE ↓ 4%

AVERAGE UNITS PER ORDER ↓ 4%*

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

2019 YEAR-TO-DATE RETAIL INDEX

Key Insights and Recommendations for Planning a Customer-Centric Holiday Strategy with Improved Profitability

The holidays typically mean "taking the gloves off" for retailers vying for customer attention over their competitors – unleashing margin-killing promotions, insanely expensive marketing campaigns and costly shipping incentives with little regard for ROI. Lots of new customers? Maybe. Profitable holiday performance? Probably not.

Retailers cannot focus on simply winning customers this holiday 2019, they must focus on the "right" customers. Below, we break down the major trends expected to impact retail performance this holiday season and provide directional guidance and real life retailer examples to help you plan a truly customer-focused holiday strategy that drives profitable long-term growth.

PLAN YOUR HOLIDAY STRATEGY CENTERED ON YOUR MOST VALUABLE CUSTOMERS

OVERALL CUSTOMER PROFITABILITY
↓ 4%

On average, customer profitability is down 4% YTD for 2019. And while it is commonly believed that your most frequent shopper is your most valuable, so far this year, every other customer set (i.e. 1st, 2nd to 5th and 6th to 10th) has been 9-11% more profitable than the "loyal" 11+ time purchaser. Specifically, the 2nd to 5th time buyer has been the most profitable customer set for retailers thus far this year.

HOLIDAY TIP

Review retail holiday 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 a retailer's profit. The value is in keeping the best customers (who are 9 times more valuable than the average customers) and deciding which to forfeit to competitors (the worst of which are 44 times less valuable than the best customers).

Retailers must review their holiday 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 holiday strategy that emphasizes 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

2019 YEAR-TO-DATE RETAIL INDEX

LEVERAGE CUSTOMER-CENTRIC METRICS AND KPIs TO MEASURE AND TRACK YOUR HOLIDAY PERFORMANCE FOR GROWTH AND PROFITABILITY

MARKETING SPEND

↑21%

Marketing spend is up 21%. Free shipping is up 9%. Promotions are up 4%. Yet, customer acquisition is down 8% and overall customer profitability is down 4%. Retailers must strike a balance between winning holiday shoppers and impacting the bottom line.

HOLIDAY TIP

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

Navigating the headwinds of the *Retail Vortex* requires more than looking at top level metrics like revenue, AOV, and Units per Transaction. Retailers must go deeper to analyze 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

"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

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

2019 YEAR-TO-DATE RETAIL INDEX

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

INVENTORY VALUE ↑ **18%**

UNSOLD INVENTORY ↓ **23%**

VIEWS AVAILABILITY ↑ **2%**

Heading into holiday 2018, inventory value was up by 9% and availability of products being viewed online was up 3% from the previous year. The upward trend continues in 2019, with an 18% increase in inventory value YTD versus this time last year. Even with increased inventory, retailers are selling through more stock (with unsold inventory down 23%). This all indicates that retailers are 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 – holiday returns started rolling in as early as December 25th and snowballed into a 26% increase in returned merchandise in the first few weeks of January 2019 compared to the previous year. 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.

HOLIDAY TIP

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 in-demand products, with the greatest potential full-price sell-through and "first purchase" products that directly lead to high value customers. Pinpoint combinations of products, promotions and customer profiles that most frequently drive full price and/or profitable purchases.

42%

Conversion Increase

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

"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

2019 YEAR-TO-DATE RETAIL INDEX

PLAN SHIPPING AND PROMOTIONAL OFFERINGS WITH MORE PROFITABLE OUTCOMES

FREE SHIPPING ↑ 9%

PROMOTIONS ↑ 4%

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, margins for the digital side of business are thinning YoY. As retailers increase free shipping (up 9% year-to-date and up 23% in March alone) and ongoing use of discounts (4% increase in orders placed on promotions compared to same time last year), these 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. That's where the hidden pools of loyalty lie." - ACCENTURE, See Beyond the Customer Loyalty Illusion

HOLIDAY TIP

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

Expect Amazon to continue to "up" the holiday ante of competitive offerings with their Prime deals and 1-day shipping. Identify products that have enough margin to still be profitable after free shipping and discounting costs. Package these products together with creative VIP offerings reserved for your best customers to create an exclusive shopping experience that drives 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 $950K 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

2019 YEAR-TO-DATE RETAIL INDEX

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

Marketing spend played a massive role in the post-holiday *Retail Vortex*. During the 2018 holiday shopping season (Nov 1, 2018 – Dec 30, 2018) marketing spend soared 94% compared to the 2017 holiday shopping season. And despite the increased spend, retailers acquired 12% fewer new customers.

NEW CUSTOMERS ↓ **8%**

CONVERSION FROM 1 TO 2 ↓ **6%**

AVERAGE ORDER VALUE ↓ **4%**

This trend continued in the first half of 2019 as retailers increased their marketing spend by an average of 21%. As new customer acquisition was down 8% and conversion of customers from 1st to 2nd time purchases was down 6%, retailers' efforts continue to miss their intended purpose. With average order value down 4% YTD even when retailers succeed in capturing the attention of customers, they are not purchasing as much as they used to.

HOLIDAY TIP

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.

$38B **Yearly cost to the worldwide retail industry from unproductive marketing**

- IHL Study

CASE STUDY

When a $7B 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 as across other channels- including placing the robes in fitting rooms and altering in-store displays.

*2018 vs 2019 unless otherwise noted

DYNAMIC ACTION

ABOUT THE RETAIL INDEX

2019 Year-to-Date Retail Index is an analysis of more than $13.3 Billion (£10.5B) in online consumer transactions globally from January 1, 2019 – June 1, 2019. The transactions analyzed account for nearly $5.7 Billion (£4.5B) in North America and more than $7.6 Billion (£6B) in Europe.

The Retail Vortex occurred December 25th 2018 – January 14th 2019 and was identified through a subset analysis of the DynamicAction Retail Index: 2018 Year In Review + 2019 Outlook that studied over $12.3 billion (£9.53B) in online consumer transactions across North America and Europe.

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

www.dynamicaction.com

@DynamicAction

DynamicAction

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 improved performance with AI-powered metrics. It enables faster, better decisions to deliver profit, analytics and visualizations 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 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.