



RetailWeek

CONNECT

WHITE PAPER

In association with BlueYonder

Inside the mind of the fashion consumer

Four global insights that prove
smarter pricing means higher profits



INTRODUCTION

From artificial intelligence to smart home devices, the role of technology in enhancing retail is impossible to miss. Of paramount importance is using this technology to understand how consumers want to shop and adapting to their needs.

One obvious requirement is the ability to pay the right price for the right product. Consumers are both willing and able to easily seek out the best deals, but this desire for discounts is damaging margins.

To attract cash-strapped consumers during 2007's financial crisis, fashion retailers entered an environment where seasonless Sales and promotions became the norm, with tightened margins consequently affecting profits.

This global discounting spree caused retailers and consumers to become lost in a mass of promotions, where offers helped retailers to break the seasonality of Sales. As a result, promotions became as important for retailers as they are for

“Fashion retailers need to optimise prices in a dynamic way to positively impact sales and ensure profitability at season’s end”

Matt Hopkins, vice-president of retail strategy development, Blue Yonder

Global consumers find **online the easiest place to find the best deals**, with **83%** using this channel to look for the best prices for fashion, compared with 68% on the high street

consumers. But how do you break that cycle? Making the best pricing and markdown decisions is critical to delivering the best customer experience, brand promise and profit protection.

Machine learning solutions provide the ability to analyse granular data around stock colour, size, and style, to determine product and pricing requirements.

This enables retailers to manage markdowns based on external market data and a better understanding of consumer expectations and behaviour.

Produced by Retail Week in association with Blue Yonder, this whitepaper is based on exclusive research in the UK, US, France and Germany, focused on the challenges of keeping pricing strategy in line with volatile customer demand.

By highlighting four key insights, we show how fashion retailers can utilise machine-learning solutions to maximise profits while still keeping their customers happy.

THE RESTLESS MODERN SHOPPER

In order to keep the modern shopper happy, retailers and brands have created new promotional periods in recent years, starting with the globalisation of Black Friday, brought to the UK by Amazon in 2010. While Black Friday traditionally follows Thanksgiving in America on the last Thursday in November, the day has now translated into a two-week promotional period for many retailers in the UK, with traction gained across the globe due to the growth of online shopping.

Alibaba's adoption of Singles' Day – which is on November 11 each year – has helped turn it into China's biggest online shopping day, and has put it on course for recognition around the world.

While the rest of the globe is yet to capitalise on the trend in other markets, many international retailers have marketplaces on Alibaba's Tmall site to benefit from the giant promotion-driven event.

In light of high promotional periods, retailers began to edit their buying and pricing strategies, planning additional promotional lines when creating ranges. High volumes were bought across lines to benefit from the increased interest driven from their pre-planned high discounts.

Many retailers are fighting back to protect their margins, by driving full-priced Sales and reducing the number of days and products on promotion. But this may be in vain; the original promotional strategies have simply caused consumers to become accustomed to purchasing products at low prices.

“Fashion retailers know good pricing and markdown decisions are critical to protecting margins”



51%

of French consumers rate discounts as important, with consumers in France driven to purchase clothing due to low prices



Our global consumer research found that:

- Discounts are the second-highest driver for clothing purchases, fuelling **43%** of consumers (with only the 'need' to purchase ranking higher).
- A reduction in price is more important than low prices to begin with for **37%** of consumers.
- Discounts are especially important in France, with **51%** of French consumers driven to purchase clothing due to low prices.

Unseasonal weather over the past two to three years has additionally benefited consumers' purchasing needs, as retailers have been forced to discount high-seasonal leftover stock at the end of its planned selling cycle.

Traditional buying cycles – of up to eight months in advance – are no longer relevant for today's market. The gap between retailers' pricing and markdown strategies and consumers' expectations is widening – the industry is thought to react far quicker than its legacy buying plans allow.

While many retailers have modified their buying behaviour for fast-fashion collections – taking advantage of shorter-lead-time suppliers and manufacturers in domestic markets – seasonal shopping has become a thing of the past.

Maintaining newness and relevance

A third of global consumers (34%) purchase clothing based on when they like something, as opposed to only 12% of consumers who buy due to the latest season collections. This demonstrates the importance of newness and relevance against seasonal-specific products in driving full-price Sales.

Subsequently, consumers have changed the way in which they shop, creating their own strategy for fashion purchases. Researching products and prices has become the norm, and consumers have not only become more conscious when it comes to what products they purchase, but also in deciding when and where they part with their money – becoming more savvy and less brand-loyal as a result.

The cumulative change in consumers' shopping strategies and need for discounting are damaging retailers' profit margins, with the likes of global dominator H&M's pre-tax profits falling 3% in 2016, due predominantly to heavy discounting. Retailers have continuously looked to new

avenues to drive organic growth, seeing international expansion and online channel development become desirable options. However, as both market spaces become more saturated, the competition has intensified greatly.

Retailers are fighting to appeal to a new wave of digitally driven customers. Competing in a multichannel market has caused an influx of investment in technology across stores, mobile and ecommerce, which continues to work in the consumer's favour.

While improvements to user experience have made it easier to navigate retailers' websites to find the best prices, mobile and app developments have enabled shoppers to use cross-channel devices to compare products and prices while in store. More than a third of global consumers (36%) look for the same item online when making a physical purchase.

“The industry is expected to react far quicker than its legacy buying plans allow”

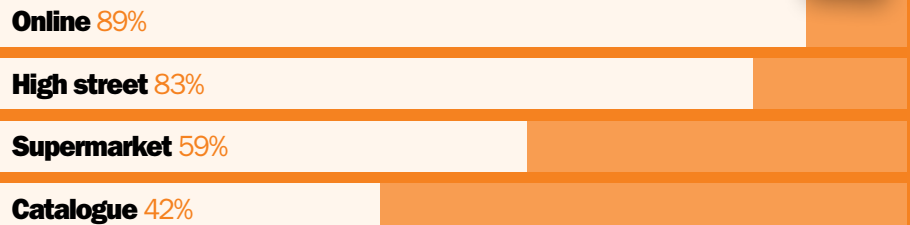
Forward-thinking retailers are seeing that digital advancement also offers the opportunity to capitalise on price optimisation through machine learning. By implementing new algorithms supported by machine learning solutions to optimise pricing decisions for each SKU, retailers have the capability to accurately calculate consumers' willingness to pay for specific price points.

Utilising machine learning

Such developments significantly benefit retailers with an international reach to better manage discounts across the globe, understanding and responding better to different consumer preferences.

Just as retailers' buying cycles need a refresh, so do their pricing strategies. While it is undeniable that the fashion retailing game will continue to change beyond recognition, consumers will continue to adapt to new ways of savvy purchasing as retailers adapt to the market's economy and embrace technological change.

Where do global consumers purchase fashion in a given month?



We are a globe of bargain hunters, with fashion retailers being outwitted by their customers



The proof comes from our international research, in partnership with Blue Yonder, which has found four key pricing insights that appear on both sides of the Atlantic.

By understanding the consumer's discounting needs and utilising price optimisation, fashion retailers can overcome these challenges, creating greater efficiency through an automated data-driven process.

LESS LOYAL AND MORE SAVVY

Global consumers outsmart retailer pricing strategies

WHO MAKES FASHION PURCHASES ON THE HIGH STREET IN A GIVEN MONTH?



Only **two thirds** of **US shoppers**



87% of **UK shoppers**



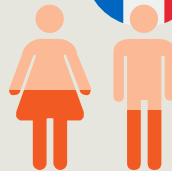
95% of 25 to 34 year olds **globally**



Global consumers are **drawn to discounts** as **43%** purchase clothes **due to Sales**, and more than a third (37%) are tempted by low prices.



Low prices are especially important in driving **French** consumers, as **half** (51%) of French consumers are driven by low prices in fashion purchases.



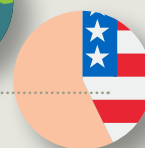
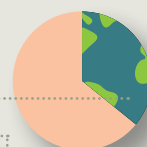
Globally, **female** consumers are driven more by **Sales** than male consumers at 48% vs 37%.



A quarter of **global** consumers (25%) **never buy** clothes when they are **full price**. This is relevant for twice as many consumers in the **US (39%)** vs the **rest of world at 20%**.

Global consumers are using cross-channel devices to find the best deals

More than a third of global consumers (36%) look for the same item **online** when they are **in the store** to find the **best price**. US consumers are the most savvy, with 43% of consumers doing this. Global consumers are also becoming **less loyal** as a third of consumers look for the same items in **other high street stores** to find the best price (30%).



INSIGHT 1: SHOPPERS EXPECT DISCOUNTS

As the industry has developed a continuous cycle of discounting on the high street, customers have become accustomed to buying fashion products at reduced prices.

A quarter of customers globally (25%) never buy clothes when they are full price. This is more prevalent in the US, driving nearly half of US consumers (39%) in their clothing purchases.

While this benefits consumers' pockets, their expectation of discounts damages retailers' profits and margins. In many cases, retailers are left with high volumes of stock at the end of a season, having to discount up to 70% off the original selling price to make space for new-season stock.

While the unlimited space of the internet allows for Sales to continue, in-store profitability is damaged if low-margin stock

“A quarter of customers globally never buy clothes when they are full price”

is allocated store space over higher-margin, full-priced, new collections.

Sales over new stock

Despite many retailers moving away from rigid seasonal buying cycles to drive full-price Sales through frequent new collections, our research shows consumers would rather buy from discounted stock than new season inventory.

With consumers conventionally drawn to seasonal sales, 42% of consumers wait until the end of the season for a discount on fashion products before making purchases. The trend is more pervasive among female consumers at 46%, compared with only 36% of males.

In a female-dominated industry, it is important to consider the increased number of SKUs available in womenswear collections compared with menswear and, therefore, the higher volume of discounts to be had.

It is logical that 10% more female shoppers would wait for end-of-season discounts than male shoppers.

Nevertheless, it is likely that the gap will narrow as an increased number of retailers are investing in their menswear collections as a response

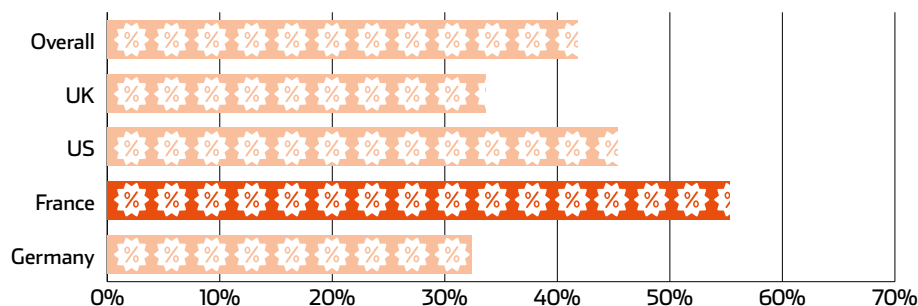
to growing interest in male appearance, fuelled by celebrity culture and health and fitness trends.

Globally, French consumers are the most patient, with 55% likely to wait until the end of the season for a discount. Despite being home to haute couture, there is a level of uncertainty among French consumers as they await the late-spring presidential election this year, as well as a weakened economy that has continued post-recession.

While international expansion was once a strong route for organic growth, global economic differences make this troublesome for many, seeing the likes of British heavyweight Marks & Spencer deliver plans to exit the French market in 2016, including the closure of its flagship stores in Paris.

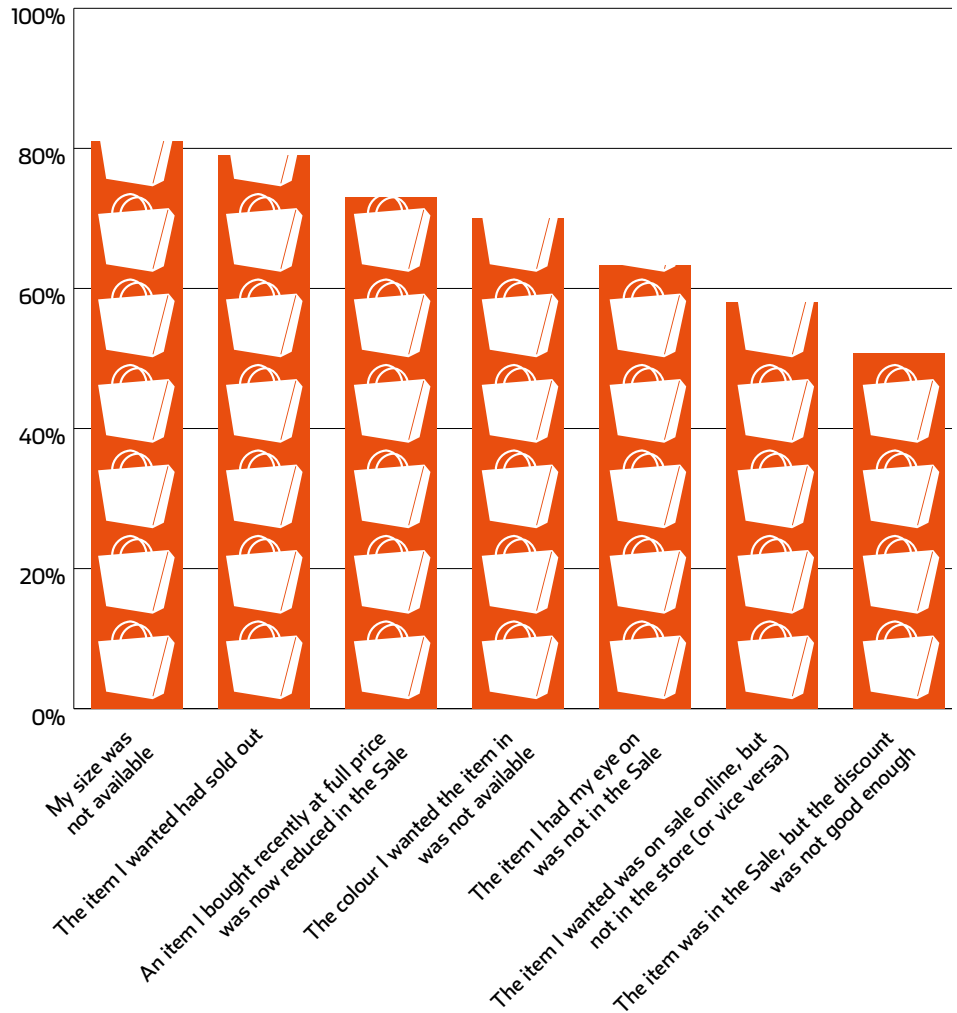


I OFTEN WAIT UNTIL THE END OF THE SEASON FOR A DISCOUNT





HOW DISAPPOINTED WOULD YOU FEEL WITH THE FOLLOWING WHEN SHOPPING IN A SALE?



INSIGHT 2: SHOPPERS FIND SALES DISAPPOINTING

What causes disappointment during Sale shopping?

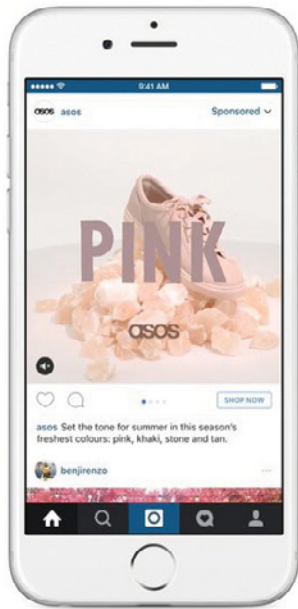
81%

of global consumers are disappointed or very disappointed by their size not being available

While consumers are willing to postpone their purchases until seasonal Sale periods in the hope of a discount, many have also developed strategies for how much they are willing to pay. Our research found that half of consumers globally (51%) are either disappointed or very disappointed when the

item they want is not discounted enough, demonstrating that retailers still struggle to entice spend during the Sales. This is followed by 79% of consumers being either disappointed or very disappointed that the item they want has sold out.

While it is clear that consumer dissatisfaction can arise from both discounting and full-priced selling periods, an important lesson for retailers to learn is that if their range proposition was compelling enough at the start, consumers' buying strategies would change. If retailers



“If the range proposition was compelling at the start, consumers’ buying strategies would change”

initially offered the right product at the right price for their target market, it would drive consumers to make full-price purchases to ensure they do not risk missing out on desirable fashion products, avoiding dissatisfaction.

This is partly why the likes of Asos have seen such explosive growth. A crucial factor in Asos’s success is understanding its target customer in each of its overseas markets, and how much they are willing to pay across its own-brand and wholesale brands, creating deals that correlate appropriately.

And while Asos is not invulnerable to seasonal Sales and ad-hoc promotions, its supply base allows it to turn over new-stock buys in weeks, giving its customers what they want when they want it, which the business has stated improved its full-price sell-through. The business model for Spanish retailer Zara presents a similar story, driving Inditex’s group pre-tax profit up by 24% in 2016/17.

Retailers would benefit from moving away from the binary approach of setting end-of-season markdown costs and periods, and instead understanding their customers’ spend capabilities and preferences – including opening price points and discount drivers – to avoid customer dissatisfaction either way.



INSIGHT 3: SHOPPERS DEDICATE TIME TO COMPARING PRICES

Across the globe, consumers are eager for their money to go further, creating discount-seeking strategies before they purchase fashion items.

Unsurprisingly, consumers head online to find the best deals – digital marketplace titans Amazon and Ebay have made evergreen discounted goods readily available. For the best prices for fashion purchases, 83% of consumers look online, compared with a reduced 68% who do this in stores.

Of those browsing online, nearly three quarters (70%) researched for up to five hours a month, demonstrating consumer commitment to finding the best deals.

The use of mobile means that consumers can also use cross-channel innovation to browse competitors’ websites and apps while in store.

More than a third of consumers look for the same item online when they are in the store to find the best price. Millennials have the highest tendency to do this at 47%, demonstrating the importance of retailers targeting those aged 18 to 34 in store.

US consumers are also the most savvy when it comes to cross-channel browsing,

Nearly three quarters of those browsing online **(70%)** research for up to

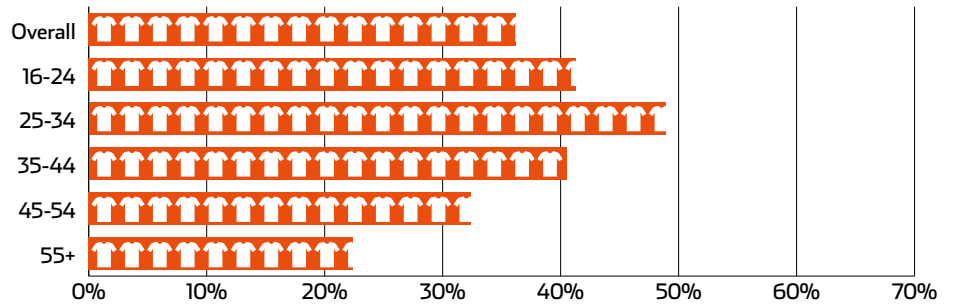


five hours a month,

demonstrating consumer commitment to finding the best deals



I LOOK FOR THE SAME ITEM ONLINE WHEN I AM IN THE STORE



In a given month, at least 85% of global consumers search for the best prices to find discounts across online, the high street and catalogues

85%

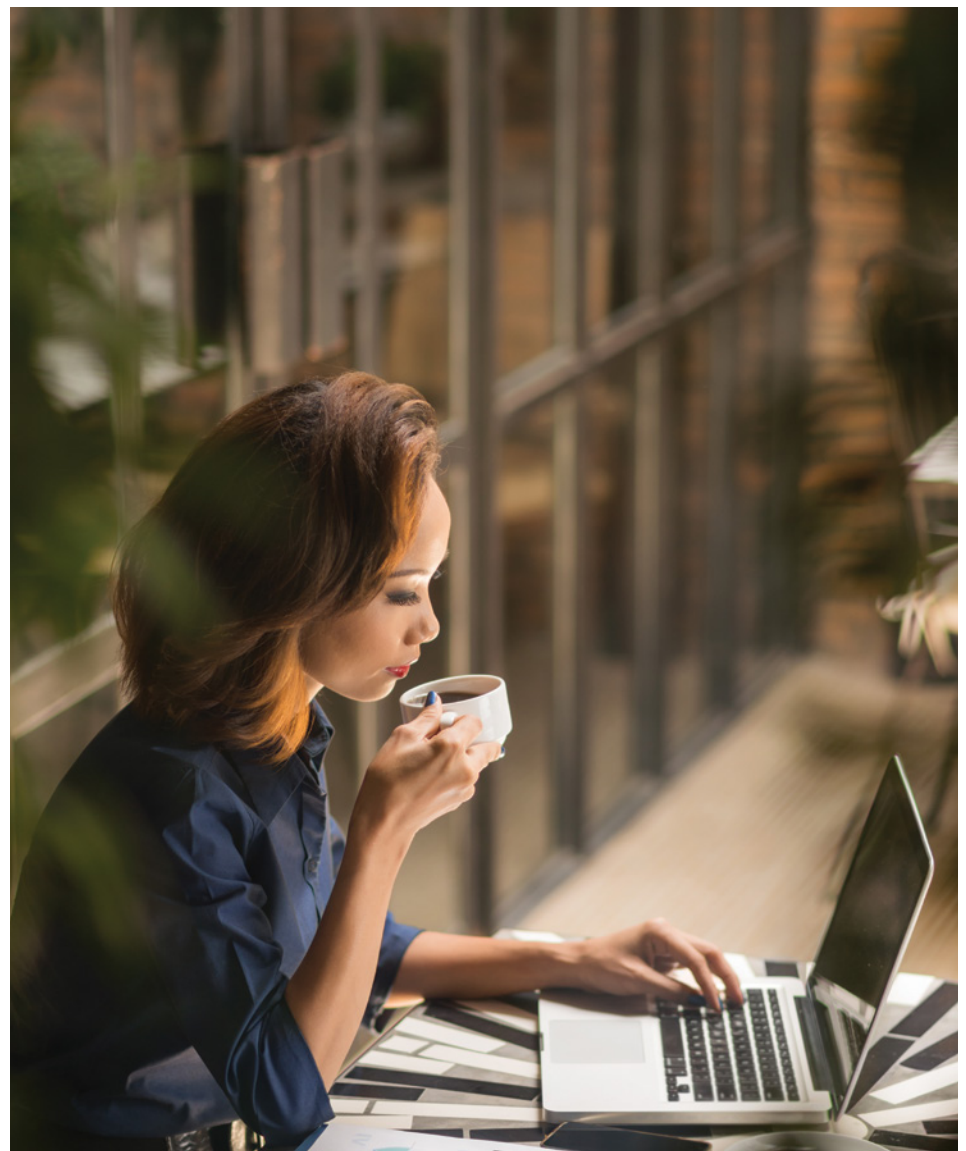
with 43% of US consumers using mobile while in store. However, this is not surprising given it is home to innovation drivers Apple and Amazon, and the early adoption by consumers as a result.

Spreading the wealth

Interestingly, the majority of global consumers (26%) only look for up to 10% off stock when browsing for discounts, suggesting that instead of seeking great savings, consumers are driven by the idea of any price reduction if it means their money is going further.

Retailers are responding to this by pushing discounts via email, member acquisitions and ad-hoc promotions to drive sales, which is very fitting, as 25% of global consumers make fashion purchases after they have waited to receive a discount code or voucher.

“Mobile use means consumers can use cross-channel innovation to browse competitor apps while in store”



MARKS & SPENCER



There are multiple reasons why traditional buying and pricing models need to be addressed, including consumers approaching fashion purchases more strategically, and the need for retailers to protect margins most commonly impacted by high markdown costs.

The research found that a growing number of consumers are put off retailers offering frequent discounts. Of global consumers, 9% said they are concerned over the

“Capitalising on the outputs of new technology will help to ensure retailers offer the right proposition”

quality of clothes if retailers offer too many discounts across a range.

Additionally, 5% of consumers globally do not trust retailers that frequently discount their items. While this only represents a small proportion of consumers, disloyalty results as consumers become more strategic in their buying journey, demonstrating the importance for retailers to harness customer data and digital innovations to understand how best to satisfy and retain customers.

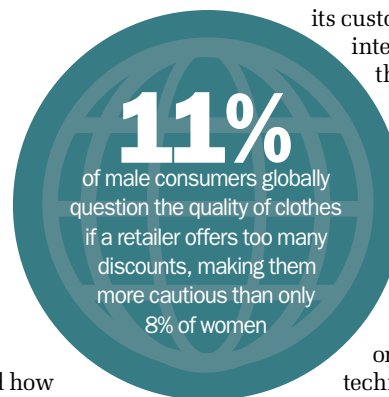
Understanding markets

This is increasingly important as retailers continue to expand into new markets as they seek organic growth. This has seen

fast-growing online UK retailer Boohoo acquire US brand Nasty Gal to understand the mindset of US consumers through its customer data and aid its international expansion in this market.

Discounting is not key in driving sales. The leading factor for fashion purchases is consumers shopping as and when they need products, applicable for 52% of global consumers. Capitalising on the outputs of new technology – such as

the capabilities in machine learning – will help to ensure retailers offer the right proposition of price, product and availability in order to drive full-price Sales and protect profits, while maintaining brand equity.



PARTNER COMMENT

HOW ARTIFICIAL INTELLIGENCE HELPS FASHION RETAILERS PROFIT

Pricing is a key competitive weapon for retailers facing pressure from online and value players, but getting it right depends on a much more rigorous calculation of how external factors, such as competition, can affect the price elasticity of each and every product.



The problem is that most of the models the technology industry has developed to date are either not rolled out or simply do not work, because they cannot scale, can only manage limited data inputs and cannot respond fast enough to market dynamics.

The prize for getting pricing right is huge. Retailers can experience an improvement in profits of more than 5% and in revenue of up to 15%.

Blue Yonder Price Optimization is a machine learning solution that rapidly delivers retailers optimised pricing decisions for every product while also improving revenue and profit.

The solution measures the relationship between price changes, customer demand and a retailer's business strategy, and automates the results at scale directly into operational systems.

Our solution optimises based on more data inputs than any other product, including competitor prices, weather

and inventory levels, reacts quickly to changes in the market and adjusts prices automatically to each product and store.

This approach completely changes the way retailers manage markdowns, ensuring they can now balance product availability and pricing, which in turn enables them to put their business goals into operation.

• **Markus Jühr-De Benedetti**, chief revenue officer, Blue Yonder

“Retailers can experience an improvement in profits of more than 5% and in revenue of up to 15%”

CUSTOMER SPOTLIGHT

OTTO PREDICTS THE PACE OF MODERN FASHION

German multichannel retailer Otto is using Blue Yonder's AI technology to help improve the customer experience, increase sales, and reduce stock levels and returns by basing strategic decisions on data.

The solution adapts quickly and flexibly so that Otto can always take maximum commercial advantage of changing market conditions. By using machine learning technology, the solution continuously evaluates its own forecasting quality and learns from past events.

Daily forecasts are created for each article, by colour and size, and based on hundreds of different input variables (for example, brand, price, online placement, stock situation and weather). Every year, more than 5 billion forecasts are created this way.

Mathias Stüben, Otto's area manager of category processes, said: "Through the machine learning algorithm, our forecasts are constantly improving. This way, we get precise results that help us plan and control a future-oriented product range."

ABOUT BLUE YONDER

As the leading provider of machine learning solutions for retail, we enable retailers to take a transformative approach to their core processes by adopting data-driven decision-making. Every day, we provide millions of decisions to retailers that help boost revenues, increase margins and enable rapid responses to changing market dynamics.

CONTACT DETAILS

19 Eastbourne Terrace, London W2 6LG |
blue-yonder.com | 020 3626 0360 | info@blue-yonder.com

RetailWeek CONNECT

Head of Commercial Content Operations

Laura Heywood 020 3033 4289
laura.heywood@retail-week.com

Commercial Production Editor

Emily Kearns 020 3033 2901
emily.kearns@retail-week.com

Production Manager

Jo Lambert 020 3033 2677
jo.lambert@emap.com

Account Director

Nikita Wolski 020 7391 4287
nikita.wolski@retail-week.com

Contributors Vernon Adams,
Willemijn Barker-Benfield,
Isobel Chillman, Dan Harder,
Rebecca Dyer, Rebecca Marks

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