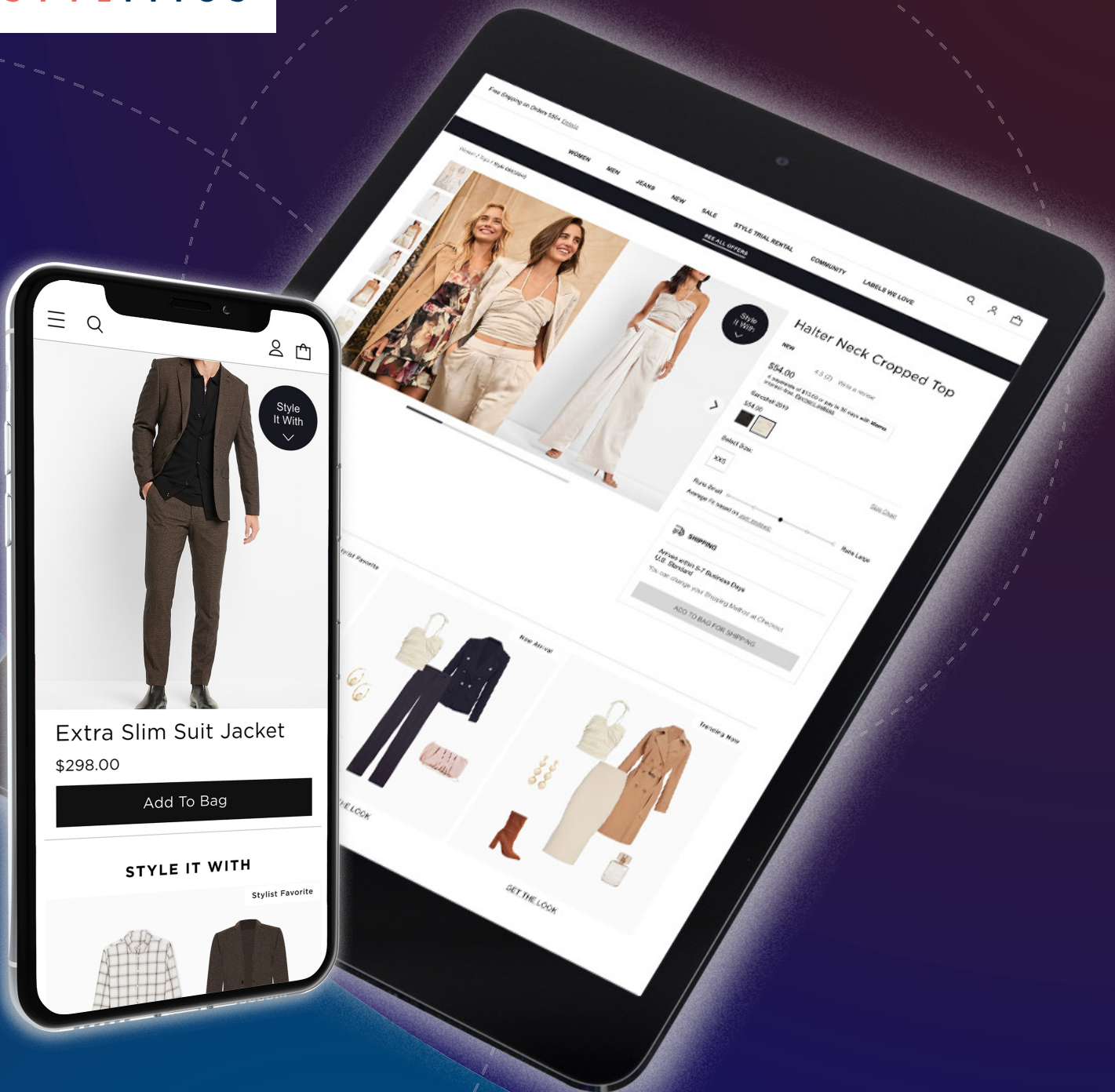


STYLITICS

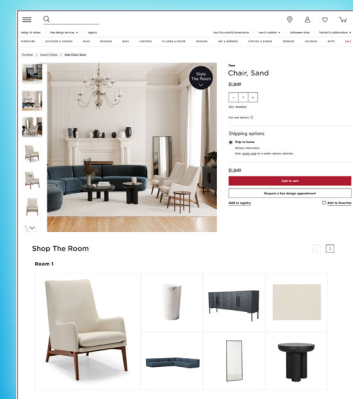
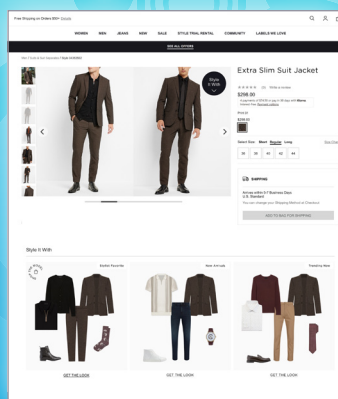
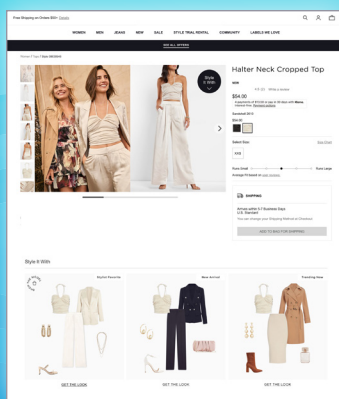


STYLITICS OUTFITTING STRATEGY Q+A

Key Questions That Automated Bundling Can Help You Answer

It is no surprise that current market uncertainties and economic forecasts are driving retailers and brands to take significant steps to control expenses, while concurrently improving efficiency and revenue conversion. These conditions can create strong headwinds for retailers as they seek to weather the current storm, all while maximizing the quality of shoppers' experience. Those that get the most out of the smartest data-driven solutions will not only overcome these challenges but also compete and thrive.

Leading retailers are often looking at blended strategy options. At one extreme is to bias heavily towards cost containment, knowing that such a strategy may improve short term EBITDA, but may lead to a poor shopper experience and risk to acquisition and brand loyalty. At the other extreme lies the all out market share focus, where both leaders and category challenger brands take risks in acquiring and converting value-centric shoppers with more of a “land grab” mentality.



Stylitics impacts the entire shopper journey, dramatically improving the key KPIs and goals of multiple teams

KEY OPTIMIZATION QUESTIONS FOR MAXIMIZING FUTURE MARGINS, REVENUE PERFORMANCE AND SHOPPER EXPERIENCE

A core eCommerce approach to blend cost and margin optimization with a continued focus on revenue and conversion lies in the use of innovative product bundling and outfitting strategies. A pressing question: How to get the best and most balanced attainment of business ROI out of your product bundles, outfits and styling recommendations? In this Q&A document, we'll highlight trends to watch out for in your data and the right questions to ask to ensure you're targeting the right items, at the right price, at the right time, to the correct audience while maximizing profitability.

Through these questions, we hope that you'll develop a deeper understanding of how category leaders as well as challenger brands are looking at current shopper buying behavior. These organizations are strategically optimizing margin, merchandising, internal inventory, teams and eCommerce process challenges. We hope to help you unlock large scale opportunities to optimize, prioritize and execute cross-category bundling strategies. Please note that many of the questions will require some foundational data and analytic tools to answer effectively.

#1 How aggressively are your shoppers shifting to a more volatile, value centric mindset?

If you find that the gross value of your shoppers' average basket is lowering, your merchandising team should ensure that you have optimal and automated bundling strategies built for these new, lower price points. The same could be said if price points are increasing. If it's unclear whether or not there are definitive changes in shopper sentiment in certain categories, we could consider running limited A/B experiments with specific automated bundling strategies. By test and learn, your team can see the impact of such strategies on conversion rates and average order values as a leading indicator as to which strategies to scale across the broader product catalog.

As the economy continues to be volatile in 2023, consistent and regular retesting of shopper sentiment will be critical, to spot both downward and upward trends in price sensitivity as well as understand how and when to alter strategies to stay aligned with key changes in shopper behavior. Automation of the outfitting process can help merchandisers scale up different use cases and data-driven bundling strategies to get faster insights.

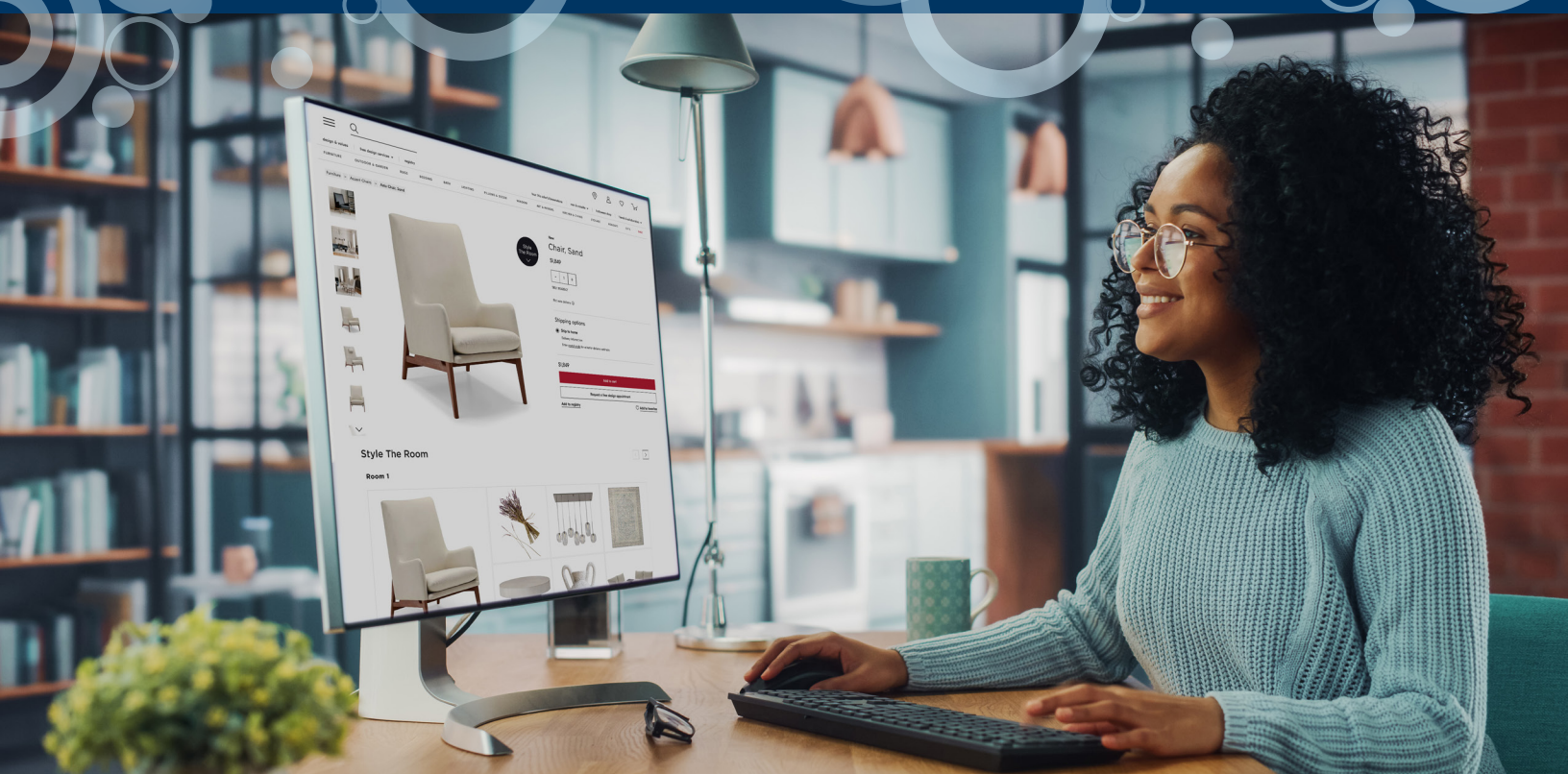
#2 How is product mix influencing customer behavior?

The next area to consider that may uncover changes in purchasing behavior shifts is to review the total composition of items purchased in your customers most recent shopping sessions to identify changes in purchasing patterns.

For example, is there greater cross-category shopping? Are there new synergies to these cross-categories through related products or frequently bought together items? Would it make sense to bundle these products together proactively, even if these categories were not typically purchased together in the past?

By understanding your customers' buying behavior across categories, you may be able to create intuitive choices or bundle unconventional SKUs to test their impact. This creativity may identify new ways to increase profitability and customer satisfaction, elevate average order value, units per transaction and conversion rates.

To get the most out of these more complex cross-category product mixes you will need to define how these bundles are assembled and where they should appear within the purchase journey. Ideal locations include in pre-purchase 1st and 3rd party marketing, in the product display page, cart and checkout. When you pair these experience strategies with AI-based solutions, these bundles can be set up at scale and tested across a larger diversity of items.



#3 How can you use bundling to optimize / accelerate inventory sell through?

As the impacts of inflation and a softening economy take hold, customers are becoming increasingly value-centric with their spending habits. Earlier supply chain challenges leave excess inventory behind; as a result, you may lack the capability or speed to utilize manual or conventional promotions or bundles to rebalance. Automated bundling rules designed to optimize inventory levels and provide auto-substitutions can be a key driver for rebalancing inventory levels and restoring balance across a large-scale catalog.

As an example, there may be means to bundle high value, non-discounted items with a variety of products that are over ideal inventory levels. By optimizing the pricing levels of the entire add to cart collection, the shopper can achieve their value goals, while the retailer accelerates stock reduction of over-inventoried products and avoids further margin compression.



AI-driven, automated monitoring of stock levels within bundles, coupled with auto-substitution business rules, enable continuity of the strategy and inventory optimization, even when select items become low or out of stock.

#4 Should you decelerate any categories or products?

By understanding if specific product categories are under-performing and by how much, you have a strategic decision to make that could influence your bundling, cross-sell and upsell strategy. Two approaches are outlined below depending on the desired result:

- 1. Where product categories have decreased in penetration, you might shift towards bundling products where the customer is more active, divesting and driving traffic to better performing categories.**
- 2. Alternatively you may want to experiment and double down on under-performing product categories through optimized bundling to offset lost sales.**

In either case, the ability to pair these strategies with automation enables your team to consider experimenting with different strategies in order to drive longer term goals.



#5 Will everyday and promotional product pricing significantly increase or decrease?

In addition to the challenges outlined above, are you planning any unforecasted changes to promotions both in discount depth and frequency that may affect brand loyalty, category penetration and average price points?

THE EFFECT ON EACH OF THESE WOULD BE AS FOLLOWS:



BRAND LOYALTY — Increasing or decreasing product pricing via regular or promotional pricing can cause a shift to higher or lower priced items within a brand and/or shift the customer away from that brand entirely. Price increases beyond a customer's reach will cause a shift to different brands at lower OPPs (short-term effect) while extreme price decreases can devalue a brand and cause the customer to shift to what may be considered higher-end brands (long-term effect).



CATEGORY PENETRATION — Increased prices will decrease units per transaction (UPT) which can have a negative impact on category penetration and shipping profitability. Decreased pricing can increase category penetration to total sales, however at lower margin rates.



PRICE POINTS — Significant changes to price points need to be identified as early as possible as lowering price points will typically decrease margins but create a strong opportunity to drive attachment rates through optimized bundles. As price points increase beyond their previous pricing in a declining market, optimized bundles become critical as consumers will avoid spending more due to financial constraints and the negative feeling price increases have created. Bundles would need to be created to inspire within financial reason while minimizing frustration.

Merchant and marketing teams should coordinate on these shifts and ensure new bundles are built that align with promotions, campaigns, and unexpected price increases due to shortages, component & labor increases, and inflation.

#6 Based on basket size and cart complexion are you seeing any changes in AOV?

If Average Order Value (AOV) is higher, has the complexion changed or are your shoppers purchasing higher priced goods? If so, what categories are seeing this change and can you ensure that high-end bundles are setup for your most affluent customers? These customers generally have higher expectations, desires and demands and you can meet these desires with a concierge-like experience via the right bundles and curated outfitting.

10.8%

U.S. ECOMMERCE
GROWTH RATE, Q3 2022

Analysis of U.S. Dept of
Commerce, Nov 2022.

If AOV is lower, are you seeing a shift to lower priced goods by item, category, or in total basket size? In each case, you may want to influence lower priced goods with tailored low-end bundles that encourage upsell to stabilize and then increase AOV over time.

If you are also finding that fewer items are being sold we would recommend that your Merchant & Marketing teams work together to determine alternative bundles. The purpose of this re-calibration is to increase units per transaction UPT through optimizing price points and category synergy.

#7 How are your customers leveraging their shopping carts?

Customers interact with shopping carts in different ways. Some use a cart as they browse to save items for later, to compare, or to place items when they are simply ready to buy. By understanding where the customer is in the browsing journey, you can begin to tailor cart-specific product bundles with the objective of avoiding indecision and to optimize for upsell and cart conversion.

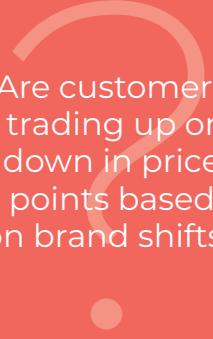
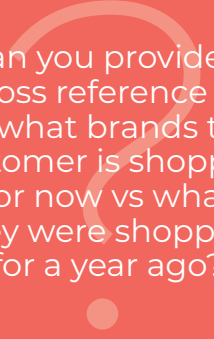
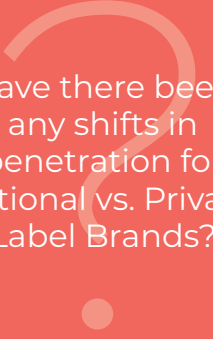


Depending on the findings of your team, or based on the different segments of behavior, you may choose to present bundles or accessories at later points in the overall commerce journey, such as immediately after an add to cart action or at even later points in the checkout flow.

#8 Have you seen a change in customer brand loyalty?

During turbulence, increased monitoring of brand loyalty is a valuable data point that can help inform your bundling approach. Given the current economic climate, McKinsey and others suggest that customers are more likely to rapidly change their buying habits and brand loyalty, particularly in the face of high inflation and the residual effect of supply chain disruption.

We suggest that your teams pay close attention to these any other key trends in your shoppers' behavior:

 <p>Are customers trading up or down in price points based on brand shifts?</p>	 <p>Can you provide a cross reference as to what brands the customer is shopping for now vs what they were shopping for a year ago?</p>	 <p>Have there been any shifts in penetration for National vs. Private Label Brands?</p>
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If any of the changes above are true, is this shift in brand loyalty profitable? If not, it's vital to focus your efforts to inspire the customer at lower OPP branded price points and to automate the promotion of such bundles at multiple points in the shopper's life cycle.

#9 How are you forecasting this season and 2023?

The questions above are focused on historic and present data. Equally important is ensuring that your bundling strategy is aligned with your forecasts and projections. This will make your bundling execution proactive rather than reactive. If you're forecasting lower demand or items that will soon be going out of stock it's important to time and remove those items from bundles to avoid customer frustration, confusion and cart abandonment. You should optimize and plan your bundles well in advanced for where you think you are going to be in the coming days, weeks, months and quarters. Minor adjustments from there are much easier and faster to implement.



SUMMARY

As you can see, analysis across multiple data points is complex and required to produce correctly optimized bundles for upsell and cross-sell opportunities. AI solutions are only part of the story, insights and activity from across your organization need to be utilized to directly inform your automation, bundling priorities and approach. To put it another way, a “set it and forget it” AI-only approach to product bundling will yield limited results compared to creating a constant feedback loop between your teams and your bundling strategy.

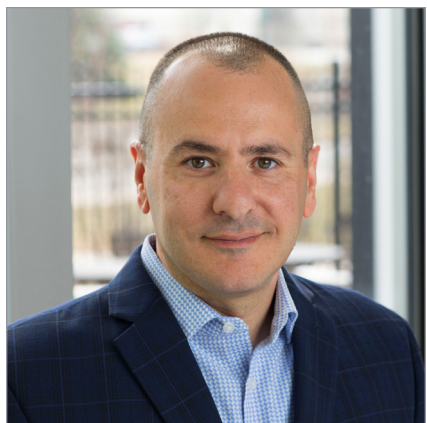
If you're a marketer, merchandiser or commerce leader and you'd like help with your personalization strategy, from product bundling, cross-sell and upsell, please get in touch to find out if Stylitics is right for your business.

STYLITICS

Stylitics is the leading visual outfitting and styling solution for global retailers in more than 30 countries. Stylitics' powerful combination of algorithms, trend data, and automated expertise delivers millions of on-brand outfit recommendations across e-commerce, email, advertising, in-store, and in social channels to create more engaging shopping experiences. Headquartered in New York City, Stylitics works with top fashion, apparel, accessories, and home furnishings brands, including Express, Macy's, Kohl's, Revolve, and others, to engage more than 100 million shoppers with its technology and content each day.

For more information, visit **[Stylitics.com](https://stylitics.com)**.





David DiTota is a Vice President of Strategic Growth for Stylitics. Before Stylitics, David held multiple executive-level positions in retail merchandising and eCommerce at Kohl's and Toys R' Us.

At Kohl's, David delivered best-in-class assortment, bundling, and merchandising strategies for over \$6.5B of omnichannel revenue. In addition to leading the digital merchandising team, he was a leader for the overall outfitting program and a key team driver of the competitive analysis strategy of the brand.

While at Toys R' Us, David led programs for the company's largest Omni-Channel merchandising team, overseeing over \$2.1B in annual revenue. During his nearly 2 decades there, he led merchandising and marketing across both digital and over 600 physical store locations.