



In the Bag

Vera Bradley sets new products and price points with predictive analytics

by CRAIG GUILLOT

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At a time when retailers seem to be carrying more variations of products than ever in an environment of shrinking margins, everyone wishes they had a crystal ball. No one can truly see into the future, but new solutions and tactics are making it easier for retailers to gauge consumer interest on products and price points before they put items on the shelves.

For more than 30 years, fashion accessory and handbag retailer Vera Bradley has had a loyal consumer following. Fans flock to the company's bags, which come in a variety of sizes, styles, patterns and colors. The brand's products are available at more than 3,000 specialty retailers and more than 75 company stores throughout the country.

Because Vera Bradley is constantly bringing new products to market it is always gambling — making the best educated guess on customer interest and pricing. Price too low and it risks losing margin; price too high and the item may not sell. And when it comes to things like fashion accessories and handbags, it's important to determine the right size, color, pattern and price point to optimize sales and product performance.

Stephanie Scheele, director of marketing and communications for Vera Bradley, says there's always a level of uncertainty when bringing a new product to market. While the company researches products extensively, it is the consumers who ultimately decide what they want — and in the world of fashion, that can change on a dime.

New categories always present a risk," Scheele says. "Offering the right product assortment at the right time, right price and right place for our fans is always our goal."

Vera Bradley recently started working with First Insight and has seen dramatic improvements in new product performance. First Insight has three solutions available: InsightSelection, InsightPricing and InsightMarketing. The marketing solution allows marketers to identify the optimal customer profile for products that are new to the market or a retailer's assortment. It helps retailers find groups of consumers that are most likely to buy the product, find optimal product sets to market to specific customer profiles and which products to feature in promotional materials.

InsightPricing allows retailers and brands to determine optimal entry price points and forecast average unit retail prices before products hit the market. Analytic models can help identify the target price to achieve maximum gross margin given a specified markdown cadence and initial sell-through expectations. The solution can help generate market response curves that show price elasticity of demand and help retailers find the perfect entry price point.



Overall, we increased our revenue 4% based on pricing changes from customer insights.

- Stephanie Scheele



Chain Store Age, June 2013



WHAT CONSUMERS WANT

First Insight Chief Marketing Officer Jim Shea says the company's goal is improving the success rate of new products. He says retailers

are using more methods to evaluate and select prices for new products, but they are often inaccurate and can either overprice products or leave margin on the table.

Retailers use a number of methods that include relying on experience or intuition, using historical data or deriving data from their own tests. The problem is, there's no scientific measure with intuition, historical data often uses outdated information and test runs in stores can't pinpoint what's going to work across the entire country.

"Even with all of those methods, 50 percent of new products fail," Shea says. "There is just not a lot of accuracy. Our solution lets retailers significantly improve that success rate."

First Insight doesn't just help products succeed upon entry to the market; it also helps retailers maximize their performance by setting the right price to begin with. Shea says the pricing solution helps retailers typically increase their sales or margins by as much as 9 percent. Vera Bradley uses it to bring new products to market and gauge the interest in new styles and patterns for existing products.

"It has given us a greater understanding of demand and price sensitivities resulting in a more optimized assortment and pricing strategy," Scheele says. "It's very useful as a tool to test new styles prior to introduction."

SETTING THE RIGHT PRICE AT ENTRY

First Insight engages consumers through "gamification" (turning surveys into games). The system shows users product close-ups, price points and other factors, then uses games to gauge customer in-

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terest. In most cases, consumers are engaged through e-mail, social media or the retailer's website. In some instances, there are incentives to respond.

"We are enabling the retailer or manufacturer to engage their own customers online so we can get the insight," Shea says. "They are typically grouped 20 to 30 [products] at a time and we can get the data in 48 to 72 hours."

Shea says retailers can also "drill down" into the data to gain more insight and can tag items to later use the data to gauge preliminary interest on certain products at certain price points. A fashion retailer might learn that red dresses in the \$55-\$60 price range are big sellers at certain locations, then try to introduce new similar products or find a way to boost margin.

"You can really drill down with the data to see what products people want, where they want it geographically and demographically and



what prices they're willing to pay," Shea says. "All the data is essentially real-time." First Insight says it's a fast and relevant way to "connect with and think like your customer," and also offers the ability to capture additional customers.

First Insight also works directly with brands and manufacturers. Shea says this is critical, as decisions at that level often need to be made up to 18 months before items hit the shelves, whereas retailers generally make buy commitments six to 12 months before products are in stores.

A number of prominent retailers and manufacturers use First Insight's solutions, including The Limited, Saks Fifth Avenue and Avon; David's Bridal was able to improve its forecast accuracy by more than 20 percent through First Insight's predictive analytics solution.

Scheele says the cloud-based tool has allowed Vera Bradley to create deeper customer relationships, maintain brand awareness and build loyalty by continuing to deliver the products and prices that their customers want. It also uses the tool to research new categories like baby items, jewelry and drinkware. Benchmarking existing categories has also helped it avoid reductions in unit sales based upon pricing that is above what the market values.

"It allows us to gain fan insight desired products and the perceived value and price sensitivities of future offerings," says Scheele. "It has really given us a tool to test new styles prior to market introduction." **STORES**