



It's time to consider second-hand retail: The second-hand market can make your business more profitable and sustainable. Here's how

By Ulf Avrin and Denis Mantelet

From consumer sentiment to evolving government policy, the incentive for retailers to adopt more sustainable business practices has never been higher. Now, the surging market for second-hand products offers an attractive route to contribute to a more circular, sustainable economy.

The risk inherent in some ESG policies is that if done poorly, they open companies to accusations of greenwashing, which can negatively impact both their reputation and share price. However, a key principle of circular economics is extending the lifespan of goods through re-use and recycling.

According to [Retail Detail](#), marketplaces for second-hand goods are growing twenty times faster than the overall retail market in the European Union. In the fashion sector, the second-hand online market is expected to nearly double by 2025, growing from 20 billion to 37 billion Euros.

While predominantly driven by specialised pure players in fashion (Vinted), luxury (Vestiaire Collective), high-tech (Back Market), and generalist platforms (leboncoin), the second-hand market is now seeing entries from traditional retailers including renowned names like Ikea, COS, Decathlon and H&M.

The appeal of entering such a fast-growing market is undeniable. However, traditional retailers face a unique pricing challenge: How do you seamlessly offer both brand-new and pre-owned products in a way that generates synergy for your business and value for consumers while reducing offer cannibalisation?



UNLOCKING THE SYNERGY OF CLASSIC AND SECOND-HAND RETAIL

As a retailer, one of the advantages of incorporating second-hand items lies in your ability to fill product gaps within your inventory and address fluctuations in supply and demand. These timely solutions allow you to maintain a well-rounded selection that caters to a range of customer preferences.

It also allows you to seamlessly expand your range coverage and compete for entry-level consumers by offering cost-effective alternatives without compromising brand quality. This results in you being able to tap a wider audience, foster loyalty, and strengthen your market position against competitors with better cost structures.

There are some accompanying pitfalls to combining pre-owned with new stock. In some bricks and mortar clothing stores, the second-hand section can appear more unstructured and cluttered as consumers rifle through the different options, risking a change in customer perception of both the store and brand overall.

On the other hand, maintaining a low price entry point for used, high quality items can reduce your reliance on new entry-level products that do not meet the same quality standards. One of our clients told us this approach incentivised them to create higher quality new products, creating a virtuous circle that moved them away from lower quality goods altogether.



MINIMISING CANNIBALISATION AND MAINTAINING BRAND PERCEPTION

One of the main risks of incorporating second-hand products is the implication it can have for profitability and revenue optimisation. Without the right strategies in place, customers opting for second-hand purchases can lead to reduced profits, especially if margins are inconsistent.

It can also disrupt the flow of new product stocks, leading to potential issues with dead stock. In the long term, a shift in customer demand and expectations may result in increasing preference for more affordable, lower-margin products. However, there are many things you can do to mitigate the impact of offer cannibalisation and maximise synergy between classic and second-hand retail. If you are considering entering the second-hand market, here are seven steps you can take to improve your profitability.

1. SEGMENT AND TARGET YOUR CUSTOMERS

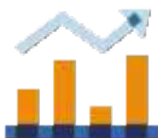


Define your target customer segments and tailor your marketing efforts accordingly. Guide your customers through skilful curation and merchandising, with clear placement and labelling to distinguish new and second-hand goods that encourages customers to buy with confidence.



2. DIFFERENTIATE THROUGH PRICING

Set prices to establish a perceived value of new and second-hand products that aligns with your customers' expectations. Attract distinct customer groups by offering competitive pricing for second-hand items and showcasing the quality assurance of new products.



3. MANAGE YOUR CHANNELS

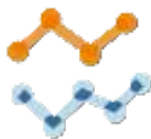
Enhance your customer segment targeting by using different sales channels to strategically distribute second-hand products, such as through marketplaces or dedicated retail outlets.





4. IMPLEMENT CONSISTENT PRICING

By identifying substitutable products within both catalogues, you can implement a consistent pricing strategy that ensures similar unit margins for sales of either product.



5. DYNAMICALLY ADJUST PRICING AND AVAILABILITY

Address demand in real-time by dynamically adjusting the price and quantity of products. This strategy not only boosts overall sales volume but also improves catalogue availability while optimising yield.



6. SET THE RIGHT PRICE TO PURCHASE FROM PRE-OWNERS

Setting an appropriate purchase price for second-hand items is crucial to ensure your profitability while offering an acceptable deal to the pre-owner. Consider the various costs, such as evaluating the product, refreshing it if necessary, labelling, and stocking. Striking the right balance allows you to effectively acquire the most valuable pre-owned items while incentivising pre-owners through immediate cash or credits.



7. EDUCATE YOUR CUSTOMERS

Empower your shoppers to make informed choices that align with their individual preferences by transparently educating them about the benefits of both product categories. This not only fosters understanding and appreciation – it increases overall customer satisfaction.



THE BENEFITS OF ACCESSING THE RIGHT ANALYSIS

As with any entry into a new market, your strategy needs to be backed by a solid data-driven approach. Synergising new and second-hand items is a complex optimisation problem that requires significant analysis of your products and an in-depth understanding of customer habits and expectations.

Internal data from your customer loyalty programme may allow you to tailor your offering to some degree, but this often needs to be supplemented by external market studies and dedicated research to ensure the different parts of your offer are properly connected.

In the first instance, it's often advisable to start by launching a small trial initiative. Based on analysis of the data this generates, you can then experiment with ways to optimise your approach through the strategies we've highlighted here.

One of our recent clients used this process to enter the Swedish second-hand children's wear market and now generates 5% of its turnover from reselling pre-owned goods.

AN AUTHENTIC STEP TOWARDS A CIRCULAR ECONOMY

According to Forrester, 64% of European adults agree that companies are responsible for protecting the environment. At the same time, both the EU and UK have adopted circular economy action plans to encourage everyone to do more to manage the planet's finite resources.

By integrating classic retail with second-hand retail, you have the opportunity to contribute to sustainability in a meaningful way while also tapping into new markets, appealing to eco-conscious consumers, and boosting revenue. Done well, it can also help you to create the same virtuous circle mentioned earlier, driving up quality across your product range by offering a more impressive entry-level product through the second-hand market.



HOW TO GET STARTED

While entering the pre-owned market comes with its fair share of challenges, that doesn't mean you need to take your first steps alone. Our experts are here to offer support and guidance, helping you to confidently embrace the potential of second-hand retail and thrive in a future where sustainability and customer satisfaction go hand in hand

Get In Touch

Ulf Avrin
Managing Director
Tel: +33 7 8991 6937
Email: ulfavrin@pearsonhamgroup.com



Get In Touch

Denis Mantelet
Engagement Manager
Tel: +33 685 855 115
Email: denismantelet@pearsonhamgroup.com

