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RETAIL

Retailers miss revenues due to unplanned markdowns

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Nordstrom works with a drop shipment company to manage inventory. Image credit: Nordstrom

By SARAH JONES

United States-based retailers are missing out on billions of potential full-price sales, as miscalculated merchandising decisions and unexpected external factors lead to markdowns.

A report from Celect and Coresight Research found that markdowns are costing U.S. non-grocery retailers $300 billion, equivalent to about 12 percent of total sales for these retailers. About 53 percent of unplanned markdowns are tied to inventory issues such as overstocking and buying the wrong merchandise.

"The biggest difference between markdowns and promotions is that one is planned and the other isn't," said John Andrews, CEO of Celect. "Retailers often resort to unplanned markdowns as a result of a misunderstanding of demand having too much of a certain product available that either has a seasonality component to it or will soon be obsolete.

"Having to rely on markdowns on a regular basis can quickly erode margins and result in much of the industry turmoil we have seen over the past few years," he said. "Most retailers, and certainly luxury retailers, do not want to do any markdowns at all, some even going as far as destroying product rather than letting it get to market at a discount."

Celect and Coresight's report is based on a survey of 200 retail executives taken in October 2018.

Full-price friction

The average sell-through rate among U.S. retailers is 60 percent, and only 15 percent of retailers sell at least 90 percent of their stock at full-price.

Multichannel retailers are less likely to be able to sell at full-price than the average, which the report attributes to the complexity of planning and tracking inventory across channels.

Some of the main causes of unexpected discounted pricing are outside of a retailer's control. External factors such as a rival retailer offering a sale or unseasonal weather can lead brands to mark down merchandise to move unsold goods or spur sales.

Retailers often strategize far ahead, making unexpected weather patterns a potential hazard to business operations as usual (see story).

Out of the ordinary weather patterns can hurt seasonal attire. Image credit: Moncler

Sellers are also facing increasing competition, which may create changes in consumer demand. Competition is the number one external pressure retailers are facing, with 60 percent of respondents mentioning it as a stressor.

However other factors happen in-house, as retailers overbuy or misallocate inventory. About one-third of retailers say that buying too much merchandise is a problem, while about 27 percent note buying the wrong products as a reason they have not been able to sell more at full-price.

When asked in general about inventory management issues, 43 percent of retailers said that overbuying is a problem, while 36 percent mention not buying enough, pointing to the challenge of finding the right balance.

Retail has faced disruption, making buying more complex. Image credit: Neiman Marcus

Retailers who use manual forms such as spreadsheets to plan inventory are more apt to mention issues with overbuying or underbuying.

About four in 10 retailers believe that advanced analytics could help them make inventory decisions.

"AI and advanced analytics play a huge role for retailers that see the benefits of making accurate demand predictions to fuel the merchandising process," Mr. Andrews said. "With these predictions and being able to optimize decisions against them, the result is drastically reduced markdowns, higher full-price sell through, increased in-store conversions and fewer stockouts.

"We have seen the impact of advanced analytics lead to massive, seven-figure margin returns and double-digit increases in store conversions," he said.

Under pressure

Apparel retailers are more apt to say that buying the wrong products is an issue. They also face more pressure to get inventory to market speedily, an external pressure mentioned by 43 percent of fashion retailers.

The rapid pace of shoppers' social media discovery and fashion buying habits is hurting luxury brands that have longer journeys to market, according to a report from McKinsey.

From "sketch to store," "affordable" luxury fashion and premium goods take 46 weeks compared to 28 weeks for

vertical companies that have no wholesale component. Those weeks can be critical as this time impacts brands' abilities to respond to emerging trends or keep popular items in stock (see story).

Retailers are embracing technology to help them track inventory.

Despite the potential of leveraging consumer insights to guide merchandising decisions, many retailers are failing to effectively incorporate shopper data into their planning stages.

According to a report from Boston Retailer Partners, 54 percent of retailers are looking to better integrate consumer data into their planning process, making it the top priority for the next year. As retailers look to deliver the assortments and seamless shopping experiences that consumers crave, being able to mine real-time data from a wider set of sources can help stores drive sales and loyalty in a competitive environment (see story).

"While fully preventing markdowns may not be possible, retailers that understand the future demand of products are able to make smarter decisions, ultimately avoiding excessive markdowns and effectively reclaiming millions in lost margins," Mr. Andrews said. "Simply put, retailers must better understand demand for a product so they do not overbuy and get stuck with inventory that needs significant price reductions to move."