

RETAIL

How AI can help retailers using markdowns to dispose inventory

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Putting stock in AI. Image credit: Active Viam

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Artificial intelligence (AI) is a technology that many industries are taking advantage of to minimize their costs and generate more efficient, smarter ways to make calculated decisions.

Especially in retail, AI and machine learning are being used to generate smarter pricing methods, with **73 percent of retail executives** expecting their companies to engage in intelligent automation pricing by 2021.

Price is right?

Offering markdowns, which is a key moment in apparel, is one of those pricing methods that AI is helping roll out.

The challenge with implementing markdowns is to offer the right level of discount for each product to sell off the remaining inventory while maximizing the net value of the goods.

The benefits of data science and machine-learning technologies are significant here because the analysis can very precisely integrate all the data accumulated during the sales period.

Pricing experts often ask themselves questions such as: How did each product sell? What correlations can we establish with tagging? What impact could the news or weather have had in each region? What competing offers were in place at the same time?

These questions can be answered by using AI, and here are a few other ways that AI can positively impact retailers using markdowns to sell off their inventory.

Offer the right discounts to maximize sales and margin

Discounting an item requires significant thought.

Given there are so many data points available to assist in implementing the correct discount, AI is an invaluable resource at pooling this information together.

For example, through the power of AI, retailers can easily use data from the current collection as well as from previous years to set product-by-product discounts and then refine it even further by adding in geographic data to

make each discount more relevant for each specific region.

This level of granularity and customization would have been virtually impossible to do without data science and can be done even more efficiently with the dawn of AI.

Optimize stocks

As inventory nears the end of its shelf life, it loses value and retailers must sell off these products before the value diminishes to a point of zero profit.

Before enacting a markdown, perfecting location-specific assortments and allocations should be step one.

If there is an option to move slow-selling products to a different location where they will sell at a higher price, then that is the obvious option to take.

However, the transfer of goods to a new location can be expensive to execute. In this case implementing a markdown can be the more lucrative choice.

With so many factors at play, AI helps pool together the information that pricing experts need and enables the seller to make these kinds of decisions quickly and decisively to maximize profit.

Adapt to the competition intensity

Monitoring competition is always a key part of formulating a pricing strategy and it becomes more apparent when implementing markdowns.

Retailers must consider how similar products are priced at competitor stores, how those competitors are potentially implementing their own discounts, and how consumers are reacting to the discounts, to formulate the correct strategy.

With sufficiently precise tools and technologies such as AI, this becomes less of an undertaking. It becomes possible to take into account, store by store, the competitors present in the same geographic area and to optimize the markdowns according to the competitive intensity and the similarity of the products offered.

THE USE of AI in implementing price changes has a wide list of positive effects on how retailers can maximize their profit margin and sales.

By targeting research towards competition, inventory control and correctly targeted discounts, retailers can have an upper hand in price wars and turning over more stock.



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