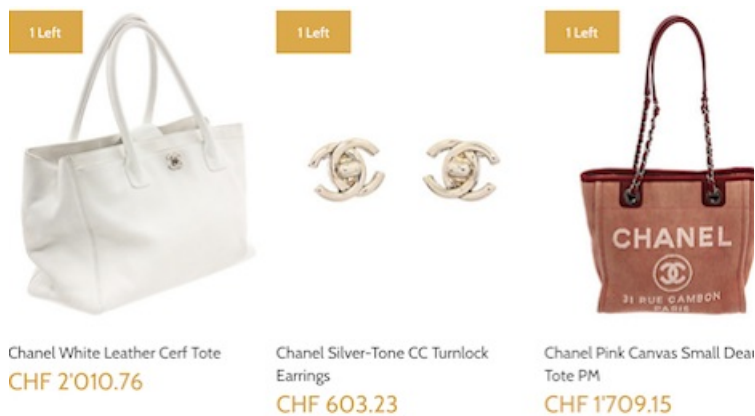


RETAIL

How retailers should deal with stale inventory from store closures

July 23, 2020



Chanel handbags and earrings on Gilt offer the brand a way to push old inventory. Image credit: Gilt

By DIANNA DILWORTH

As retailers worldwide were hit by COVID-19-induced lockdowns and store closures, inventory that was left on the shop floor grew more stale by the day.

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

As these shutdowns ran March through June or into July, retailers have been challenged with what to do with old inventory, even as most reopened with spring product during the summer. Some retailers strategically canceled orders back in March, which were likely fall transitional deliveries, intended to be sold in July and August.

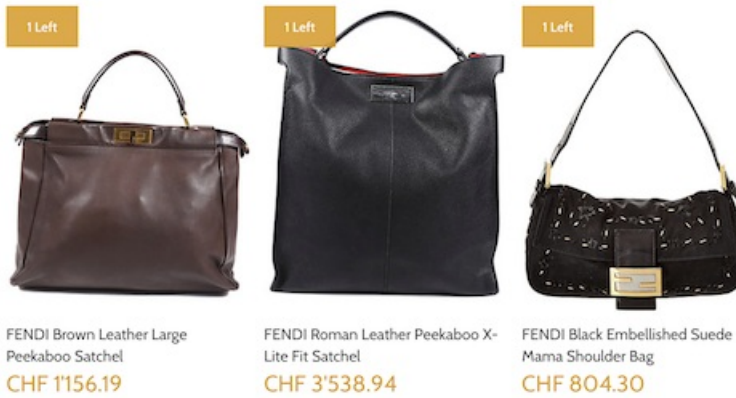
"This would then allow them to extend the selling period of summer deliveries into this time period," said Brad Eckhart, partner at **Columbus Consulting**, New York.

"While this will be at lower margins than what the transitional delivery was planned to sell at, it at least provides an opportunity to liquidate the summer inventory and free up cash, which is a highly desired commodity," he said.

"For those retailers who have outlet divisions, they should utilize this channel to liquidate spring and summer inventory originally intended for full-price channels.

"Other options include selling inventory to off-price retailers or online flash sale sites like Gilt Groupe for immediate cash flow, pack-and-hold of spring/summer product for next year's assortments, utilizing their ecommerce channel for liquidation through promotions or flash-sale sites and promotional activity in the full-price retail channels.

"The most important thing to do in discounting inventory is to find creative ways to do so without damaging the brand."



Fendi handbags on Gilt. Image credit: Gilt

Discounting drawbacks

Discounting could help retailers free up cash by liquidating inventory, likely at a higher margin than a retailer would gain by selling it off to liquidators. It could also be a way to increase market share during a time when many consumers are holding off on discretionary purchases.

However, discounting is always a slippery slope for luxury brands, whose value offering is exclusivity and scarcity.

"The disadvantages of discounting is that it could result in long-term degradation of the brand, the customer's future expectation of reduced price points and finally margin erosion, resulting in reduced profitability," Mr. Eckhart said.

"The obvious answer to this question is to take a more promotional stance in their messaging on their existing site, but this comes at a cost to the sale of full-price products and to the positioning of the brand in the consumer's mind," he said.

"Another option is to focus on increasing traffic to the site by re-evaluating their online advertising strategy, communicating a more promotional message, and targeting a different consumer segment who is more price-conscious."

Temporary flash sale sites, separate from a brand's main Web site, could be another option to spark a sense of urgency in the customer's mind.

"It also would maintain the brand integrity by not degrading the messaging on their main Web site," Mr. Eckhart said.

"From a broader digital perspective, brands should consider capitalizing on social media and live streaming capabilities to amplify the reach of their collections, in front of the right audience," he said.

"Brand marketers need only look as far as their own backyard for an example of this: take a page from the designer's playbooks, like Jacquemus and Valentino, whose SS21 COVID conscious shows went viral on social media."



Brad Eckhart is partner at Columbus Consulting

Next year's inventory

The effect of this year's stock on next year's inventory is dependent on the actions that a retailer takes now.

"If they opted to pack and hold spring/summer inventory from 2020 to sell next year, it will in all likelihood decrease their purchases next year," Mr. Eckhart said.

"If they were aggressive in their promotional activity and/or were able to utilize outlet channels or liquidators, then they will be in a much better position for purchasing fresh spring/summer 2021 inventory," he said.

But this spring and summer 2020 inventory are not the only issue for retailers.

For many brands, forecasted sales for the back-half of this year are likely to be lower than originally planned.

"If they weren't quick to react and reduce their original purchases, they are going to be faced with inventory challenges throughout the remainder of the year," Mr. Eckhart said. "This will continue to force retailers to be creative in how they manage their inventory and if not managed correctly, fall and holiday clearance inventory could flow into 2021."

Several other factors could also impact next year's purchases, including a conservative approach when planning 2021 comparable store sales and any further store closures as the COVID-19 coronavirus continues to spread.

"[Another factor is] the increase in penetration of online sales, which will likely have a positive impact on inventory turns, as well as a reduction in average inventory and in future purchases," Mr. Eckhart said.