

The Upside to Markdowns

How Markdown Planning Can Help Retailers Increase Sales, Improve Margins and Better Manage Product Lifecycles

By Peter Leith

The word “markdown” is enough to make most retail executives cringe. Markdowns are often associated with margin degradation and profit loss – and some companies believe that cutting prices for their products could negatively impact their brand image. Although inevitable, retailers have historically viewed markdowns as a necessary evil designed to help sell old or slow-moving inventory.

But in an era of intense competition among retailers, growing demand for consumer price transparency and the mounting threat of inflation, businesses are starting to rethink their pricing strategies – and thus, their perception of markdowns. Recent research supports this shift: 48 percent of companies surveyed for Retail Systems Research’s 2011 annual pricing report said they have deployed or are in the process of rolling out markdown planning and forecasting solutions. Another 33 percent of survey respondents are evaluating or exploring solutions to help improve these capabilities¹.

Proactively Thinking About Markdowns

Retailers typically leverage markdowns to get rid of leftover inventory at the end of a season. Even though selling products at lower prices means a decrease in margin for the business, it leads to increased foot traffic in stores.

What does it mean to have a markdown plan in place? Instead of simply slashing prices at the end of the season in an effort to offload unwanted products, retailers should determine early on which items they are willing to reduce in price over time and for how much. Taking a more proactive approach to markdowns will help retailers better manage product lifecycles and stock levels. For example, if an item begins to fall behind its expected rate-of-sale, the retailer can tweak the product’s price to ensure it sells out by the end of the season. Price drops – even if



relatively small – attract today’s discerning shoppers, who can actively monitor and compare prices anywhere and anytime via mobile technology.

Using markdowns as a lever to keep traffic in stores consistently high can also improve product turnover and help keep inventory fresh and appealing to shoppers. Understanding how to treat markdowns as part of the overall planning process enables retailers to further refine their assortments, ensuring that they meet the needs of their customers. This, above all else, will deliver the margin improvements today’s retailers seek.

All of the above-mentioned benefits – increased foot traffic, better product lifecycle management and a fresher mix of products – help retailers reach the ultimate goal of strategic markdown planning: reducing the number of stock write-offs at the end of a selling season.

Executing a Well-Defined Markdown Plan

Deciding to implement an effective markdown planning process is one thing – but actually doing it is another. **JustEnough Software**, a leading provider of demand management solutions for retailers, suppliers and brand owners worldwide, recommends the following strategies to help companies make the most out of their markdowns:

- **Start with a plan.** A markdown plan means nothing if it’s not tied into the overarching financial plan. Retailers should start by determining how much they are willing to spend on markdowns in order to hit their financial targets. It’s equally as important that retailers are able to not only execute on the markdown plan once it’s in place, but also monitor it in real time. This ensures that pricing adjustments can be made as the season progresses.

- **Consider price elasticity.** An obstacle retailers may encounter as they embark on creating markdown plans is understanding how markdowns can impact a product's rate-of-sale. Price elasticity is key to overcoming this challenge. Price elasticity is a calculation that shows the change in demand retailers can expect when they alter the price for a particular product. Incorporating price elasticity into the plan can play a dramatic role in the quest to make markdowns a strategic part of the pricing process.
- **Plan markdowns at different levels.** Retailers must be able to plan markdowns at both the product and aggregate levels – all while maintaining complete visibility into current inventory levels, price elasticity and product rate-of-sale. This gives retailers a holistic view of their markdown strategy, enabling them to see how potential price cuts could affect a particular product category or how they might impact the ability to reach margin or revenue targets.
- **Effectively manage product lifecycles.** Markdowns can play an important role in product lifecycle management. Smart retailers will leverage effective markdown planning to not only ensure that there is less stock left over at the end of the season, but also to better manage new product introductions and phase-outs. A plan supported by advanced technology will be able to calculate which products are expected to exceed their phase-out dates, as well as provide an estimated sell-through timeframe.

Leveraging Technology for Improved Markdown Planning

Retailers that avoid putting a markdown plan in place may experience increased obsolescence, cannibalization of new product lines and decreased sales. The impact could even extend to the store as new and old products are shoved together on shelves or displays, resulting in cluttered and disorganized stores that even the most loyal customers will find difficult to shop in.

Technology is a key factor when it comes to creating an effective markdown plan. The use of outdated systems or disjointed spreadsheets to manage a markdown plan will only deliver inadequate results. Retailers should look for advanced technology that integrates with the rest of their retail planning solutions. This will help them both effectively plan and execute their markdowns, as well as constantly monitor how they are doing against the plan using real-time data.

JustEnough Markdown Planning provides an intuitive, interactive tool that planners can use to set multiple markdown structures with complete visibility into inventory, revenue, margin impacts and price elasticity. To learn how JustEnough is helping leading retailers create markdown plans that drive store traffic, reduce excess inventory and effectively manage product phase-outs, visit www.justenough.com.

1. "Optimizing Price in a Transparent World," Retail Systems Research, April 2011

About the Author



Peter Leith is JustEnough's director of product strategy. Leith joined the company in 2005 and has supported a number of successful implementations at premier retailers, including Kenneth Cole, Levi Strauss, Strandbags and GO Outdoors. In this role, Leith is responsible for leading the development and direction of JustEnough's retail planning solutions.



About JustEnough

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Founded in 1994, JustEnough is a global leader in Demand Management solutions. JustEnough services more than 500 of the world's leading brands including Allocation and Replenishment of inventory at **Kenneth Cole**, Merchandise and Assortment Planning at **Levi Strauss**, Sales Forecasting at **Kraft Foods**, Inventory Planning for **IDS Group (Li & Fung)** and **Nissan**, and Mobile Sales Force Automation at **SAB Miller**, **Cadbury** and **Heineken**.

OnCloud, **OnSite** and **OnMobile**, JustEnough's Demand Management solutions help retailers, distributors and brand owners to forecast their customer demand, plan their assortments, allocations and inventory, shape their demand and then execute on those plans. JustEnough is headquartered in the United States with offices worldwide. Learn more at www.justenough.com.