

Arrest Margin Erosion by Optimizing the Five Ps of Fashion Retailing

Savvy retailers know that one of the key success factors is management and maximization of margin. Top-line sales get the cash registers ringing, but even top selling items would not add to the bottom line if the cost of making them available to the customer are too steep.

Multi-channel retailing puts the customer in the driver's seat, where she almost expects to be able to initiate a shopping journey in one channel, continue in another and complete it in an altogether different one with convenient, cost-effective, customer-focused fulfillment as pre-requisites. This puts tremendous pressure on multi-channel retailers to find business strategies that attempt to arrest the inevitable margin erosion.

The dynamic fashion retailing industry is characterized by speed, complexity, constant change and short product life spans. The industry also faces hurdles such as intense competitive pressure, blurring channels and changing consumer purchase behavior, which make it challenging for retailers to maximize their margins while clearing fashion and seasonal merchandise by a defined date.

Minimizing margin erosion can be made possible through data-driven strategies in 5 key areas:



Balancing the 5 Arts with Data Science



Product

Retailers who focusing on assortment, buying and inventory management can help minimize inventory pile-up and effectively reduce opportunities for markdowns.

Assortment Tuning

Keeping up with the right combination of size, style and color trends is getting increasingly challenging with supply cycles becoming longer than demand cycles. Making better, more customer-centric assortment management decisions and delivering a personalized shopping experience while maximizing operational effectiveness is the key to maximizing margins.

This can be achieved through adoption of the following measures:

- Geographical and customer aligned merchandise options for reduction in possibilities of a location/customer taste mismatch. This can be achieved by developing capabilities to better understand shopper needs and shopping patterns at the geographic and demographic levels, so that assortment is more tailored. This in turn facilitates stocks to clear faster at full price, and allows for space to be freed up for new merchandise, leading to increased merchandise freshness that appeals to customers and, improved chances of selling
- Adherence to assortment in line with the retailer's value proposition and shoppers needs in a given geography, leading to more store traffic, increased sales and lower warehouse costs and closer alignment with margin plans
- Awareness of market trends and sales data throughout the supply chain to facilitate meeting customer demands faster, reducing working capital tied up in inventory and effectively avoiding markdowns on unsold inventory.

One of the prime margin protector thumb-rules followed by fashion retailers should be that markdowns must not apply to:

- a) Newly introduced styles
- b) Fast movers
- c) Styles that have not reached their lifecycle plateau.

A majority of fashion retailers fall into the trap of using cut sizes as a trigger for price mark-downs. Timely usage of **Cut Size Report & Cut Size Analysis** can facilitate an early identification of styles with inventory on hand that constitutes the cut size styles. Cross-channel fulfillment flex-



ibility can minimize product markdowns by connecting these available products with customers willing to pay a full price for these items in another channel. Multi channel retailing provides opportunities to sell items at full price or at a slight discount. This in turn can improve top-line sales by allowing them to capture shadow demand that would otherwise have been usurped by competition. Also, using the detailed Customer Profile and Purchase History data on online shoppers that is routinely collected, retailers can easily identify those customers who have purchased similar style-size combinations in the past.

Attribute Analysis covering fabric, fit, finish trend analysis, style-size-color analysis, size effectiveness analysis, and option coverage reports can also help support these action points.

Monitoring the **Cumulative Lifecycle Analysis** of styles can help assess the product performance through its lifecycle, and adopt measures to maximize margins prior to reaching the markdown stage where strategies to minimize damage can be deployed. Effective management of the product lifecycle enables clearing older merchandise quickly to allow more space for 'fresher' items that bring higher margins and higher inventory turn with less risk.

Buying Tuning in the early stages of a product's lifecycle helps synchronize the intake of merchandise to be perfectly aligned with the selling pattern, and thus con-

tributes to maintaining margins. Purchase Order (PO) acceleration is an action that can ensure quick availability of fast moving styles. At the same time, for styles that have shown a dissatisfactory sell-through, actions such as transfer of stock from non-selling to selling locations, delaying or cancelling of POs can be undertaken.

Buying Tuning and Supplier Management

- Correct ordering by accurately predicting demand
- Buying and selling synchronization characterized by high sell-through and facilitated by tweaking merchandise intake to match selling pattern
- Better fulfillment resulting in better margins
- Working more closely with key suppliers and exchanging information more effectively with their stores so they can get a clearer view of supply and demand. Greater collaboration with suppliers can improve and boost revenue capture and margins.

Inventory Management

- Accurate forecasting
- Real-time or near real-time item level inventory visibility and focused replenishment which includes early movement of stock from non-selling to selling locations. This heightens opportunities to sell and consequentially reduces stock for markdown consideration.
- Increased inventory turn and lowering overall inventory by virtualizing inventory through integration of physical stores with offerings online. Virtualizing inventory across channels also has the added benefit of improving fulfillment flexibility.

Placement

It is imperative that fashion retailers understand what customers truly want and need, and ensure the right assortment of products are in stock when and where they want to purchase.

Placement

The following steps can ensure appropriate allocation and timely geographic availability when working towards this objective:

- Moving inventory from stores where merchandise doesn't perform to stores that sell, thus increasing opportunity to sell at full price and helping margin protection. Fashion retailers should capitalize on opportunities to move products from one store or channel to another as a strategy for minimizing markdowns.
- Achieving greater control over products and inventories, resulting in fewer mark downs, by combining inventory tracking with robust ordering, transfer and replenishment.

Employment of analytics can help in the identification of fast movers and high margin contributor styles at a particular location and subsequently make timely, pro-active and informed decisions to avoid 'Distribution Voids'.

At the same time, **Stock on Hand Reports** can help gaining visibility into unallocated fast movers at distribution center, which can then quickly be mobilized for placement at stores. This results in providing an opportunity to sell, increase revenues and margins by maximizing availability on store shelf and minimizing the time lost before the style heads into the exit zone



Allocation KPIs can help gain visibility into the status of merchandise in advance, in terms of styles that have been ordered, units in transit and units that have been allocated.

Promotion

Marketing ROI optimization will ensure that very little inventory is available for markdown. Employing promotion analytics can reveal hidden patterns in customer data, keep track of customer sentiment, predict where the market is going, and help retailers meet customer demands. By applying analytics across all locations, retailers can analyze behavior patterns and target customers with personalized offers to improve brand equity and customer loyalty

Promotion

While planning and creating promotions, the following actions can help maximize promotion ROI and leave little room for an inventory build-up that would require markdowns

- Using [Customer Segmentation Analytics](#) to align promotions with target audience shopping behavior and preferences. This can help maximize promotion effectiveness, thereby resulting in little inventory that is available for markdown
- Employing [Loyalty Analytics](#) for the creation of effective marketing campaigns that influence cross channel sales (especially in-store sales) thus mobilizing inventory and ensuring reduction in markdown opportunities. Selectively crafted [Personalized Promotions](#) contribute to maximizing promotion ROI.
- While offering a promotion for dollars-off, determining if the dollars-off hit expected margin (based on each item on promotion) or if dollars-off is a marketing expense allocated to the total order value
- [Product Affinity](#) can provide deep insights into designing and placement of the most meaningful promotions
- Planning items for multiple offers to increase chances of selling
- Breaking the rules for strict category product listings and selling complementary items together to create more avenues to sell.
- Maximizing [Cross-Channel Selling solutions](#) to prevent inventory pile-up



People

Focusing on retail execution should include management of the most important part of the cycle - employees. Managing labor through effective labor scheduling, appropriate resource allocation (where roles are aligned with skills and competency), and training and development will ensure more dedicated and effective Sales Associates. They can then contribute to loss prevention and increased sales, both resulting in margin protection

People

The key activities contributing to margin protection would therefore include

- **Shrinkage control** - monitoring and controlling employee theft and pilferage, thereby preventing margin erosion
- Staff training and development resulting in skilled employees and a culture that supports and drives desired behavior. This could result in maximized **employee productivity** and profitability reflected through:
 - > Reduction in exception transactions like voids and refunds
 - > Increased sales resulting from retail product knowledge and selling skills
- **Suggestive selling** or consultation (to be purchase influencers)



Price

Research reveals that in fashion apparel segments markdown sales account for more than 40% of revenue. Markdown optimization can capture between 5% and 15% of revenue, subject to markdowns being virtually free incremental margin.

Understanding which items require a price change and how deep to price is a critical component in balancing demand with inventory throughout the life of a product. Too often, fashion retailers take markdowns for the wrong products, at the wrong time, at the wrong place. Such markdowns tend to be priced either too low, which result in lower margins, or too high, which result in lost revenues.



What is required are optimal recommendations on markdown candidates and pricing based upon their potential inventory risk at the end of the selling period, and within the constraints of the business. This can be achieved through:

- Designing optimal plans for setting markdown timing and depth. This helps maximize profitability or meet inventory on-hand objectives for virtually every clearance item in stores
- Improving markdown quality through standardized markdown processes that enable maximization of margin dollars and meeting of sell-through targets while conforming to business constraints
- Taking a more proactive approach to markdowns, which 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 company can tweak the product's price to ensure it sells out by the end of the season. Price drops, even if relatively small, attract shoppers
- Steering away from uniform application of markdown across all products, all locations at one time and adopting a practice of markdowns directed only at warranted candidates, locations and time, thus ensuring minimal margin loss. Precision comes through localization of pricing decisions. Absent localized precision and one-size-fits-all markdowns erode revenue and margin
- Getting rid of an underperforming item with more margin dollars, which frees up working capital that can be invested in styles and products that are selling well

- Planning markdowns at different levels. Both product and aggregate levels, maintaining complete visibility into current inventory levels, price elasticity and product rate-of-sale. Markdowns should support a wide range of markdown types, including seasonal, short product lifecycle, event and holiday, category reset, cycle refresh and standard discount markdowns. This ensures better control over margins, as the objective associated with each of them would be specific in nature, applying to select merchandise, geographies and time.

Targeted markdowns include the following actions:

- Optimize markdown timing and depth to help achieve inventory, profit, and revenue objectives
- Develop plans for each store, zone or chain based on store-specific customer demand. These plans are designed to help retailers devise markdown plans. Markdowns are best taken sooner and as close to the SKU/store level as possible
- Automate and streamline, at regular time intervals, markdown pricing processes based on the unique price elasticity and inventory position at each store

Fashion retailers should look beyond adopting a one-size-fits-all markdown strategy or simply slashing prices at the end of a season in an effort to offload unwanted product., They should use a more **analytical and structured actionable approach** through **guided decision making tools**. This can help them determine, early on, the precise styles they are willing to reduce in price over time and for how much, across which locations as well as the timing in an attempt at keeping margin erosion to a minimum. Using rules built on matrices such as **Weeks on Sale** (Stage of the Product Lifecycle), **Sell-Through** and **desired ending inventory**, an ideal markdown price could be suggested for implementation. This approach would also help quantify the impact of the markdowns on overall margins.

The Fashion Suite: Next Season Analytics

In a new world of fast fashion that demands concept to store in 3-4 weeks, challenged with a growing number of seasons, and the need to manage demand across international markets, the complexity of decision making has grown multifold. While next season success may rely on gut instincts, businesses must take advantage of data-driven insights more than ever before.

Manthan's Fashion Suite features a portfolio of analytics products packaged specifically for fashion retail, with solutions for merchandising, marketing, multi-channel and operations. The suite includes a number of tools to provide merchandisers, buyers and marketers with the right information they need at the right time. Supported by a hardened retail data model, fashion and specialty retailers can integrate multiple source systems, including POS, ecommerce, store systems, loyalty solutions, merchandise management systems and more to provide a "single version of the truth" for all users across the enterprise.

For more information: <http://manthan.com/fashion/>

Authors

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Reshma Suhas is **Functional Consultant - Retail** at Manthan, and specializes in fashion, specialty and department store retailing, with over 14 years of retail industry experience. Most recently at Manthan, Reshma's current focus is to institute decision making disciplines within Fashion Retailers with an aim to make them analytical competitors. Reshma firmly believes that Fashion retailers who make the best use of data-driven strategies in the next decade will emerge winners in their markets.



About Manthan

Manthan is the Chief Analytics Officer for consumer industries worldwide. Manthan's portfolio of analytics-enabled business applications, advanced analytics platforms and solutions are architected to help users across industries walk the complete data-to-result path - analyze, take guided decisions and execute these decisions real-time. Sophisticated, yet intuitive analytical capability coupled with the power of big data, mobility and cloud computing, brings users business-ready applications that provide on-demand access and real-time execution - the only path to profit in a contemporary, on-demand and connected economy. Manthan is one of the most awarded analytics innovators among analysts and customers alike - with over 170 customers across 21 countries. To see how your business can gain from analytics, visit www.manthan.com.