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You can mark this down. Retailers preserve margin with predictive demand analytics.

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As the global supply chain issues subside and retail buying departments revert to more normal purchasing practices, markdowns will reemerge as a profit-busting challenge to manage and mitigate.

For retailers, the misalignment of inventories with consumer demand often leads to lost sales due to out-of-stocks or higher markdowns when they have overestimated demand. Revenue, profit, and shopper experience all take a hit when an item is not available when a customer wants it. On the other hand, going heavy on inventory as a way to avoid lost sales comes with huge costs.

A survey conducted by Coresight Research and Celect estimated that non-grocery retailers in the U.S. absorb markdown costs of about $300 billion annually, or about 12% of overall sales.

Markdowns are a costly expense but also an area of opportunity for retailers. So how do retailers use analytics to proactively address markdowns and enhance profitability?

Using Predictive Demand Analytics to Optimize Inventories

The above mentioned research found that “misjudged inventory decisions—including overbuying, buying the wrong type of products and misallocating inventory—account for an estimated 53% of unplanned markdown costs for retailers”. Diving into root causes, the report identified that the largest factor leading to unplanned markdowns was “reduced demand due to external factors such as unseasonable weather, sudden changes in consumer behavior and

Traffic levels (store and online) and the sales of particular products in specific locations do vary significantly from day-to-day and week-to-week due to changes in the weather. In fact, no other external variable influences demand shifts as frequently, meaningfully, and directly as the weather.

Ignoring the influence of the weather can increase markdowns and negatively affect profitability. Planalytics' experience working with retailers has shown that leveraging predictive weather-driven demand analytics, both ahead of the selling season and during the end of the season when markdowns come into play, can preserve margin in several ways.

Weather-driven demand metrics isolate and quantify – as a percentage or in units – the influence that the weather has on sales. These metrics can be calculated months ahead for planning and merchandise allocation purposes (e.g. -15% weather-driven demand for Sweaters in Boston in October compared to the prior year) and recalculated in-season to factor in forecasted weather conditions (e.g. +28% weather-driven demand for Barbeque Grills in the southeast this weekend).

3 Ways to Limit Markdowns with Weather-Driven Demand Metrics

Markdown optimization can be a big contributor to profit enhancement. Retailers can expect to improve their gross margins by anticipating demand better and ultimately reducing markdown costs. Here are three ways to apply the analytics and profit:

- **Pre-season planning & allocation:** When retailers plan the next season or year they must correct the weather bias embedded in past sales performance. This "deweatherization" process improves accuracy by accounting for when favorable weather conditions exaggerated sales or unfavorable conditions deflated sales. In situations where prior sales are inflated, the positive weather environment rarely materializes to the same degree again the next year. The result: retailers often end up with excess inventories that need to be marked down to clear stocks. So instead of unintentionally chasing weather-biased sales from the prior year, which are statistically unlikely to repeat, retailers can use weather-driven demand to improve plan accuracy and adjust inventories on a market-by-market basis. As a result, excess stocks are trimmed in markets that will not match strong comp sales levels, reducing eventual markdown costs. Moreover, retailers can increase inventory levels in markets that are likely to rebound strongly from weak, weather-dampened prior year sales. This results in fewer lost sales where consumer demand is elevated.

- **In-season markdown decisions:** The next opportunity to proactively manage markdowns presents itself in-season, after sales have peaked. By considering when, where, and how much the upcoming weather will impact consumer demand, a retailer can take advantage of favorable conditions to delay markdowns for a period of time or reduce the depth of markdowns (e.g. 30% off instead of 50% off). There is no reason to throw away margin if the weather will be boosting demand naturally. For example, a December or January snowstorm may produce strongly positive weather-driven demand projections for hats and gloves and snow blowers and more in affected markets. The retailer that adjusts the timing or degree of markdowns can capture more higher-margin sales on their snow categories while still drawing down inventories as the season winds down.

- **Digital marketing to drive more full-priced sales:** Targeting audiences that will be experiencing a positive weather backdrop increases message relevancy and conversions and is yet another way to leverage weather-driven demand metrics. Take a situation where a particular region has had soft sales, and stores are currently carrying excessive inventory that will eventually need to be marked down. If a favorable weather-driven demand environment is on the way, ramping up digital advertising in these markets would help drive sales that reduce stock levels at full price or before deeper markdowns become necessary. Businesses consistently capture larger than expected sales boosts when they coordinate marketing activities to capitalize on favorable, weather-assisted demand environments. More effective, targeted deployment of advertising spend is a proven way to increase sales overall, and in many cases, reduce the very inventories that could most use a helping hand before turning to the blunt and profit-eroding instrument of markdowns.

Retailers that use proven predictive demand analytics stand to reap a variety of financial benefits that come from aligning inventories with consumer purchasing trends. With visibility into how the key external factor of the weather will influence demand, retailers can smartly plan and manage inventories across stores and regions in a way that minimizes markdowns and preserves margin without sacrificing availability and sales. Learn more by visiting www.planalytics.com.