New Software Helps Smooth Markdowns

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NEW YORK — These days, merchandising by gut instinct simply doesn't cut it anymore.

Retailers, who in the past agonized over when to mark down items or how to best market them, are now embracing a host of new computer programs and high-powered statistical tools that offer quick solutions.

The trend has gained momentum over the past half year as merchants, struggling with fewer employees and shrunken financial resources amid an economic slowdown, become less tolerant of inefficiency.

So expect to see fewer clearance racks, more clothes that fit you and more frequent price fluctuations. And for those bargain hunters who hold out until the end of August to pick up a swimsuit at 75 percent off, beware! It probably won't be there.

The new tech tools aren't exactly replacing humans, but retail executives say it is relieving them of laborious trial-and-error duties so they can spend more time on bigger picture business issues.

"We are seeing a lot of interest in this," said Greg Girard, vice president of retail applications strategies at AMR Research, a Boston business technology firm. "In the past, retailers may have brought in consultants to use their tools once and very expensively. Now, these applications provide solutions that they can use on their own, as often as they would like."

"All of this had been done intuitively," said Don Gilbert, senior vice president of information technology at the National Retail Federation. "It was an art, not a science."

Creating a big buzz in the industry is the new slew of software from the likes of Spotlight Solutions Inc. and ProfitLogic Inc., offered in the past year to help retailers manage markdowns.

The technology – companies including Liz Claiborne Inc., L.L. Bean

and ShopKo Stores Inc., are testing it – uses historical sales data to create a markdown forecast. It recommends the best optimal markdown price for each product – and the best timing for markdowns. And it tailors the recommendations to each retail location.

The software, employing mathematical modeling, incorporates such factors as price elasticity – how sensitive consumers are to price changes – and is programmed to know a product's weekly sales and how much stock is on hand.

ProfitLogic also offers a whole suite of other services beyond markdown management, tracking demand on particular items. It's working with AnnTaylor Stores Corp., for example, on how best to manage size allocation by store.

Meanwhile, retailers such as Kmart Corp., J.C. Penney Co. Inc. and Best Buy Stores Inc. are turning to new technology to help make their advertising circulars more effective.

The software, from the likes of Net Perceptions Inc. and others, helps retailers decide how to select which products to advertise, when to advertise them and how to place the product, based on an analysis of point-of-sale data.

Best Buy, for example, learned that grouping DVDs, DVD players and TVs together in an ad can greatly increase sales. Kmart has been able to cut advertising circular costs by focusing on thinner issues.

Then there's multivariable testing, pioneered by QualPro Inc., which combines advanced algebra and geometry with war strategy. This process, developed by Dr. Charles Holland and Art Hammer, former employees of a government nuclear weapons facility, has allowed companies like Toys R Us and Maplehurst Bakeries to take a problem with literally over a trillion possible answers and reduce and clarify options.

Toys R Us is now redeploying how it spends its marketing dollars, according to Gregory R. Staley, president of the retailer's U.S. store division.

Maplehurst Bakeries' use of multivariable testing at two top grocery chains helped increases sales in their bakery departments anywhere from 15 to 25 percent. Testing found that consistently having bread bake in the oven was a real turn-on for consumers, said Paul Durlacher, president of Maplehurst.

All of these tools are expensive, but executives say they're worth it.

A one-time test using QualPro's system costs about $500,000. Net Perceptions starts at $750,000 per use.

Spotlight Solutions, which costs anywhere from $500,000 to $2 million per year, promises gross margin improvements anywhere from 8 to 10 percent, said Jim Kelly, president and chief executive officer.

Perhaps the biggest headache for retailers is managing markdowns, particularly now given more heated competition from discounters.

Marking down too steeply can erode profits, while not taking deeper cuts can result in a backup of inventory.

Industry experts estimate that merchants lose $200 billion a year due to markdowns, and makers of the retailing software say $32 billion could be saved.

ShopKo, which realized it was behind the curve when it came to marking down inventory, began testing Spotlight Solutions software in October on 260 product styles. Now, it is being used to monitor markdowns for 10,000 products.

"Typically, we couldn't deal with markdowns with a great deal of precision. It was also hard for merchants to be objective. They tend to fall in love with the products they bought," said Paul Burrows, chief information officer at Shopko.

Burrows said he has been pleased with the results, with gross margin rates for those products increasing by double digit percentages.

"Our track record was three to four markdowns," he said, and that meant high labor costs. Now, the goal is to reduce that number to a single markdown.