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Your First Markdown's the Cheapest

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Business is an art, not a science. Science is consistent, demonstrative and repeatable. Art varies, because, as the old truism goes, “beauty is in the eye of the beholder.”

Nowhere is this more accurate than when discussing pricing issues.

A recent report told how “expert” wine connoisseurs, when presented with the same wine in two different bottles with two different price points, unanimously gave a higher rating to the \$50 bottle. They strongly preferred it to the identical wine marked \$8 on the label. Pricing does impact how we perceive things. We believe we get what we pay for. While we’re always looking for a “deal,” something presented as cheap turns us off.

Let’s couple this with the hard fact that, for most of us, the season is winding to a close. As hard as we tried, we still have merchandise that hasn’t sold. How do you turn that inventory into cash so your store looks fresh and you can have money in the bank—or, at least, owe less to your creditors?

There are many ways to close out merchandise. This is truly an art. What can work in one market may not work as well in another. Let’s face it, if a product didn’t sell during peak season at the original price, you have to do something differently.

One thing might be to simply relocate it in the store, put up a new display, new signage—anything that will attract attention so the customer notices the product and can clearly understand why they should own it.

If that doesn’t work, sometimes you have to create movement by having a sale. “Sale” is a word so overused that many consumers are anesthetized to it. But before you decide to immediately dump the product at half off, are there ways you can massage the “art” of pricing to yield more revenue and still get your desired result?

The answer is always yes—if you act quickly enough. The time to take the markdown is not at the end of the season when store traffic is low. If you can identify an overstock situation earlier in the year, when you have regular traffic through the store, you can take an earlier markdown or promotion and move the goods at a

higher price point. Rather than half-off, think about “Buy three and get one free.” That works out to the equivalent of 25% off retail and at a much higher average sale price, too.

This is intellectually easy to talk about, but harder to do at retail. It requires us to admit we may have overbought (or undersold, depending on your perspective). Yes, we did. Every retailer does. There are times we will have inventory imbalances. The quicker we move on them, the more cash we can generate from those sales.

Sometimes just taking the merchandise off sale, putting it in a back room for a month and then bringing it back out as “new” will create enough excitement to move things along. Sometimes an incentive or game for the store staff can generate movement. There was one garden center operator who assembled his seven employees and showed them seven \$20 bills. He pointed to a pile of trowels and said, “By the end of the week I’ll either give each of you \$20 or I’ll offer those trowels at \$10 off to our customers. Do you want the money or should we give it to the customers?” One of the employees was a newlywed and that \$20 meant a lot to her. She encouraged everyone on staff to talk to the customers about the trowels. You know what happened—at week’s end the pile was gone and the entire staff got the cash.

When all else fails, giving half or three-quarters off can move merchandise, but it won’t move the bottom line in the right direction. Yes, we need to close out the merchandise, but let’s find creative ways to do so sooner rather than later. Let’s do it in a way that leaves cash in our bank.

Bill would love to hear from you with questions, comments or ideas for future columns. Please contact him at wmccurry@mccurryassoc.com or (877) McCurry (877) 622-8779.