

Features

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Pricing: Doing the Holiday Discount

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Knowing how and when to offer holiday discount can make or break your sales season. Here are some guidelines:

Maximize value to minimize the effect of discounting. Creating interest and excitement that maximize the value of holiday merchandise is the best way to keep a lid on discounting.

Begin with “the end” in mind. Even if you play the “markup-high-so-you-can-offer-big-discounts-and-still-make-money” game, the very short season offers no room for “winging it” on your exit plan. While we have to be realistic about the need to liquidate inventory by the end of the season, we must maximize customer value at the beginning.

There are two major reasons consumers buy during the holiday season. Each has a distinct ending:

Holidays are for decorating. Most garden center customers decorate for their own personal family enjoyment during the holidays. Many of those customers also shop because they entertain during the holiday season more than any other time of year. For example, my wife takes a license to spend at least \$80 on decorating into the stores with her every time she entertains. Naturally, the holiday decorating part of the season slows abruptly when most consumers have completed their decorating—about the second weekend of December.

Holidays are for gift giving. The gift-buying season is longer, ending on the afternoon of Christmas Eve. Even garden centers that don’t have full “gift shops” can offer their customers “giftable” garden-related holiday products to help extend the selling season and take advantage of the last-minute shopping opportunity.

The season can also end earlier or be interrupted due to treacherous driving weather that keeps customers off the roads. The holiday shopping season isn’t over until it’s over, but when it is over, it’s over!

So, begin with a BANG! Begin your holiday season as early as reasonable to have the longest possible opportunity. Start early to reduce the chance bad weather will render your season too short. Kick your season off with a marketing bang—excited customers perceive more value, and that requires less discounting.

Discounted Promotions

If you begin the season with deeply discounted offers, your cost in terms of margin loss is mostly in the long-term expectation of customers to buy from you only when products are discounted. If your regular price margin is high enough this procedure may be effective in the short term. However, it's difficult to return to a full price position in your customers' mind later should you want to.

Extracting Maximum Value From Your Merchandise Selection

If you fail to address slow-moving and excessive inventory issues while you have traffic, there are distasteful options: Holding on to it until the next year, or heavy discounts. While it's practically assured holiday merchandise margins will shrink due to discounting, your challenge is to extract the maximum possible margin yield from your inventory.

Transitional merchandise. Some garden center merchandise sold during the holiday season can be transitioned from season to season, allowing you to maximize sales without discounts on those items. An example is #2-size dwarf Alberta spruce that can be carried over from summer and fall and sold during the holiday season to plant in outdoor containers. After the holidays, these plants can be grown on for spring sales.

Single-season, season-specific merchandise. Merchandise such as ornaments, holiday figurines, holiday theme tableware and so on should be considered perishable because trends in styles may render them obsolete the following holiday season. Plus, if it didn't sell this season, what makes you think it will sell next year?

Perishable merchandise. Some categories of holiday merchandise such as fresh cut trees, wreaths and roping have a limited shelf life and must be sold or discarded. Very tight inventory control limits risk, but it also limits the opportunity to increase sales if you can't replenish these items quickly. Discounts on this type of inventory are generally not effective, because by the time you know you have too much inventory there isn't enough customer traffic. Generally speaking, it's much better to discard or donate unsold inventory of this nature rather than discount it.

Carryover merchandise. Traditional color and style decorating accessories don't quickly lose favor among consumers. For example, red and green colors and pineapple and apple patterns will be needed for next year's holiday season. But there is a carrying cost of holdover inventory. My colleague and financial consultant to The Garden Center Group, Steve Bailey, has calculated that about 25% of the cost of merchandise is added when carrying it over one year. It's generally better to liquidate most remaining inventory and invest those dollars in new inventory for the following season.

Progressive Markdowns Extract Maximum Margin Dollars

Once you decide an item won't be carried over, the liquidation process begins. I refer to this as the "crap to cash" strategy. The object is to get the highest margin yield from seasonal closeout or discontinued merchandise before it becomes "Christmas crap." This is usually best done in relatively short stages while customers are still buying holiday merchandise. One or more of these stages may be skipped depending on the situation and time available to go through them.

Initial markdown. The initial price reduction or unplanned promotion price reduction is the most profitable of all markdowns. Your margin dollar income reduction will accelerate from this point on.

Interim markdown. After an initial markdown period, an additional markdown of remaining inventory will demonstrate to customers that you are willing to lower the price of merchandise that's not selling well but is still desirable. This will meet the needs of customers who are price sensitive.

Final markdown—seasonal closeout or discontinued merchandise. Once you determine that your regular customers don't want the merchandise at a fair price at the end of the selling season, remove it from the main sales floor to a final closeout location. At this point, merchandise you'll offer again the following year can be put into storage.

Liquidation sale or donation. At the final stage of turning crap to cash, you should consider taking remaining merchandise to consignment auction or flea market, selling to liquidators, or donating it to charity. Consult with your tax professional to determine any write-off advantages to donations.

Be True to Yourself

Yes, there are many very good reasons to offer discounts during the holiday season. Your challenge is to keep a responsible balance rather than allow discounts to alter the perception of your company. Discounts make it easy for consumers to categorize the type of retailer you are to them, and that stigma sticks year-round, from year to year. If you are not a mass-market, big-box discounter, can you afford to be labeled as one? **GP**

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