

Over Bought Or Under Sold?

It is not unusual for most retailers to consider the word "mark down" a dirty or unspeakable word. Any reduction in the selling price of an item is viewed as a loss of profit for the store. For most of the first part of the last century and even well into the 1980's, most retailers sold their products at full retail price. It has only been in the past 20 or 30 years that mark downs have arisen as a major issue for many retailers.

There are many reasons for this, the single biggest reason was, and still is, competition. As more retailers came into being during the 70's and 80's, competition put pressure on existing retailers to lower prices. In case you haven't noticed, the entry of yet a new wave of retailers via the Internet is having an even more profound effect on prices today. The second reason that mark downs became a fact of life, is that inventory became not only more complex (lots of choices and assortments) but also more expensive to hold. This increase in the cost of inventory led many retailers to a policy of ageing inventory and reducing the price after a set period of time to recover some of the cost of the inventory and to not incur high carrying charges. And the third reason for the increase in mark downs is related to the first, the need to promote to drive traffic into the store.

Some of the promotional mark downs are for competitive reasons (to attract customers from other stores) and some are just to bring business in an otherwise slow sales period, and yet others are just laziness, as price is a simple way of driving traffic that does not take any creativity.

Pricing is quickly becoming a major issue to many retailers. As the Internet becomes more pervasive in our lives, price competition can only increase. We are witnessing the dawn of what is called "dynamic pricing" in retail. Dynamic pricing has been around for some time in the airline industry. You can sit on any plane today and find that everyone has paid a different price for their ticket! Can you imagine what our stores would be like if we tried to charge every customer a different price for the same item? A supermarket in New York is trying just this strategy by increasing their prices during peak shopping times (Friday night and Saturday morning), with the reason being that customers will pay more for less waiting times during these peak periods. So far, it appears to be well received. That is exactly what model the Internet is striving for.

I have a saying that I have used for over 20 years, and it is simply *"Mark downs are tuition that we pay for an education about our customers."* We have much to learn from our customers about pricing. Clearly, if we have exclusive products, in short supply, the price can be as high as possible, as we move to more generic products in large supply or availability, our pricing becomes more critical.

In the future each and every one of us in the retail world will have to become

better at identifying the true "market value" of the products we sell and understand that there are customers who will pay more, customers who will pay more at certain times, customers who will never pay more and customers who simply are not influenced by price at all. I know that you are asking yourself where you can find more of the latter! But the truth remains, price is an important factor to many of our customers and how we adjust price has to be a strong part of our business strategy. To not have a clear price policy is flirting with disaster. Whatever our price policy is, we must always be prepared to explain it to our customers.

the future of commerce

When we take a mark down, not only must we learn something from the action, but we must also be able to explain to our customers why we are doing it. If we fail to explain to our customers that this is an end of season, damaged or defective, overstock, etc. mark down, then we run the risk of our customers not believing any of our prices and turning each interaction with our customer into a mini auction. Can you imagine a return to the days when every transaction with a customer was a negotiation? What would your store be like if every item was open to negotiation by the customer? Yet this is what is possible and is already happening on the Internet today. The only way to avoid this move to price only concern is very simple, but also very difficult. Here are five suggestions that will help keep you out of the price only game and will give you a strategy for your price policy.

- **Control your inventories** (never buy more than you can realistically expect to sell in eight weeks). Remember that scarcity increases demand.
- **Always try to get exclusives** so you are not being shopped on an apples to apples comparison basis, if you cannot get total exclusivity, then get time (first three months) or get geographic (only one in your city to sell it), or channel, (only gift store). Even if you can get different packaging that will make it look less like the others, it can work.
- **Nurture your customers who do not shop you on price alone.** Send thank you cards and maintain close relationships with those good customers. Help them by creating gift registries, remembering important dates for them, become more than an item provider in their life. Add value to what you do for them.
- **Always keep your mark down items at the back of the store** where the customer has to search to find them. Drag them through the total store and tempt them with your good items before they see the mark downs.
- **Remember, the price you paid for the item has nothing to do with the selling price.** Your first mark down is the cheapest. If you take a markdown (and NEVER take a mark down without knowing the cause) and the item sells out immediately, do not regret the fast sale. Pat yourself on the back, you paid your tuition and do not make the same mistake again.

In conclusion, this brave new world of dynamic pricing is going to cause a tremendous amount of headaches and problems for retailers who are not prepared. Are you ready for it?