SEASONAL MARKDOWN STRATEGIES OF APPAREL RETAILERS: AUDIT EVIDENCE AND CONSUMER PREFERENCES

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ABSTRACT

This paper draws upon two cases studies of leading retailers of apparel in the UK, illustrating the marketing, buying and logistical measures taken to control markdowns. Evidence is also presented from audits of pricing and markdown activities between 1993-96, providing unusual insights into the depth and spread of markdowns. Results are drawn from a major study of over 1,000 'sale' shoppers, indicating clear preferences of markdown frequency, depth and coverage.

INTRODUCTION

The enduring importance of 'season sales' is scarcely discernable from the marketing and retailing literature. Although item price promotions have received extensive attention (e.g. Biswas and Blair 1991; Lichtenstein et al. 1991; Gupta and Cooper 1992; Biswas et al. 1993), little attention has been given to 'sales' at the broader, store-wide level. The significance of the 'sales' does however extend far beyond the sum of individual price reductions. Paradoxically, it has taken the growth of EDLP (everyday low pricing) and its antithesis high-low pricing, to promote academic interest in 'sales'. This paper pursues four main objectives.

1. To review, necessarily briefly and selectively, and summarize the relative merits of EDLP and high-low pricing, these representing the continuum along which 'seasonal sales' may be positioned.

2. To evaluate the objectives and strategies vis a vis 'sale' markdowns of two leading apparel chains, based upon top level case study interviews.

3. To present quantitative evidence of the depth, spread and recent trends in seasonal markdowns, based upon a unique monthly audit of markdowns in the stores of 21 women's wear chains.

4. To assess consumer preferences for the frequency, and duration of 'sales' markdowns, drawing upon a survey of over 1,000 shoppers.

HIGH-LOW, EDLP AND 'SALES'

Marketing writers frequently intimate that a perpetual spotlight on low prices can damage store credibility and cheapen store images (e.g. Berry 1986). Yet, relatively few studies have acknowledged the role of 'sales' in the formation of an overall image (Lindquist 1974). Price comparisons, for example Was $39.99, Now only $29.50, allow retailers to draw attention to isolated cases of low prices which customers 'generalize' (Nystrom, Tamsons and Thams 1975) across the whole store to affect an image of good value. 'Sales' also influence store positioning through dimensions other than price, including larger crowds, 'seconds' and 'end of lines', a change in ambience, poorer service, etc. The physical appearance and behavior of a store's clientele also contribute to shaping its image (e.g., Zeithaml, Parasuraman and Berry 1985), and therefore 'meet(ing) a lower class of shopper in these sales' may also down-grade retailer's image (Prus 1986).

Concerns about the potentially damaging effects of excessive markdown activity has stimulated the debate on relative merits of Everyday Low Pricing (EDLP) vs. high-low

TABLE 1
Relative Merits of EDLP and High-Low Pricing

Everyday Low Pricing	High-Low Pricing
• Reduced price wars • Reduced promotional advertising • More efficient use of store personnel • Improved inventory management • Increased profit margins • The retailer can concentrate on being a seller, rather than a deal buyer • Less buyer time spent managing 'sale' events and more time merchandising the entire line • More consumer appeal: price perceived as more honest	• Price discrimination: merchandise appeals to multiple market segments • Creates excitement • All merchandise can be sold eventually • Price confusion reduces awareness of prices • High initial prices guide customers' judgements of product and store quality • EDLP can be extremely difficult to maintain

Derived from Bates (1990), Ortmeyer et al. (1991), Weinstein (1992), Campanelli (1993), Hoch et al. (1994), Levy and Weitz (1995) and case studies

pricing. Much has been said in support of the EDLP approach. The strengths of the opposing strategies are summarized in Table 1. However, despite the asymmetric column lengths and the implied superiority of EDLP, simple observation confirms that the high-low type stores (i.e., those using price promotions and 'sales') still greatly out-number EDLP operators. A more comprehensive account of these strategies is provided by Betts (1996).

METHODOLOGIES

Case Studies

The case studies focused upon four leading retailers, two in the variety (mostly clothing) store sector. Given the sensitivity of pricing strategies, access was negotiated at the highest level and marketing directors/managers were the key respondents, more specific data being provided by research departments. Access to published and private documents supplemented and informed the case interviews. It is not possible to name the specific organizations but each is amongst the top five in the sector. The two companies run a total of 263 UK outlets, average size 30,000 sq. ft., plus activities in other countries.

Audit of Prices and Markdowns

Given the qualitative nature of the case studies, it was appropriate to triangulate upon the key issues, using a more objective and quantitative research tool. To this end, access was negotiated to an audit of prices and markdowns over a three year period, 1993 to 1996. Auditors visit a sample of branches from 21 women's wear and 18 men's wear chains, representing 50% of all UK apparel retailing, by market share. They note prices, the number of styles marked down and the percentage markdowns. In spite of the limitations of once a month audits, and the exclusion of small scale retailers, this represents the best source of data on apparel retailers' markdown activity in the UK.

Consumer Surveys

As part of a wide ranging investigation of 'seasonal sales' and consumer responses, a major survey was conducted in 1995 and 1996. It was divided between the July and January 'sales' in two large centers and two small centers in England and Scotland. The questionnaire was developed through two focus groups, a pilot survey of 50 shoppers and a test survey involving 100 shoppers. As the final questionnaire comprised over 100 variables, the decision was made to split this into two parts. Part I administered at the malls: the longer, part II questionnaire was mailed back to the university.

Using sample quotas based upon gender and age, the mall intercept approach was used

to administer a sample of 2,623 part I question-naires. The response rate of part II question-naires was 44.6%, aided by a cash prize draw and the commitment established through completion of part I. After the elimination of cases deemed insufficiently reliable after seven consistency checks, the resulting sample of complete cases was 1,048. Space does not permit the inclusion of the full questionnaires. Specific questions and scales that are germane to the theme of this paper are presented with the summary of results. Within the question-naires, extensive use was made of agree-disagree scales. Following the pilot interviews, a modified version of the Likert scale was used, ranging from -3 (disagree strongly) through zero (neutral) to +3 (agree strongly). This was found to give a better spread across the seven scale points, as well as reducing the likelihood of directional errors.

SALES STRATEGIES

Stated Policies and Practices

In the early years of the recession, the stockrooms of company A were so full that stores were unable to receive the new season's stock. Buying had become unresponsive to customer needs, and stock control was appalling. A new management team has introduced many changes, leading to significant recovery of gross margins. A total interlinking of marketing, merchandising and buying has increase customer focus, reducing buying errors. The re-engineering of the supply chain, with few suppliers, tighter specification controls and reduced lead times, has reduced unwanted stocks. A 'first price, right price' philosophy has turned against inflated, original prices, although this is certainly not regarded as an EDLP policy. From almost perpetual 'sales', company A have moved towards shorter 'sales', held just twice a year. Some clearance does occur between 'sales', with better information systems supporting a 'clear as you go' policy. In particular, the company desegregates problems relating to product from those relating to season or weather. The 'dogs' are cleared as soon a possible, whereas timing problems await the main 'seasonal sales'.

Company B has been subjected to a different set of pricing pressures over recent years. Its basic position was actually well tuned to the recession but the threat of discount competition, including from mainland Europe, was taken very seriously. The company entered a phase of frequent 'sales' and gimmicky promotions, which raised volume but took a heavy toll on margins and store image. Measures taken to disguise 'sales' in the early 1990s, with various 'dressed-up markdowns' were abandoned recently. The real improvements in supply chain re-engineering, quality management, buyer responsiveness and information systems do however take time to implement. In common with company A, B has introduced some measures to 'clear as you go' but concentrates clearance and 'sale' promotional activities into the two main seasonal events. Summer 'sales' tend to be longer events, the data being more flexible. As more time is available to clear stock before autumn, depth of markdowns and coverage of styles tend to be incremental. Winter 'sales' however tend to start in most clothing chains at Christmas, so maximum impact is sought from day one.

Audit and Markdowns

Although case study interviews provide valuable insights into pricing policies, competitive pressures and measure taken, it is essential to compare these views with data which are entirely objective. Table 2 summarizes the audits of markdown activity during the months of July and January, over a three year period. Our two case companies are compared with two of their most significant rivals, and with the mean markdown levels across all 21 retailers included in the audit. Two measures are analyzed, the first of which is the percentage of styles marked down (spread). A style is defined in terms of cloth, design features, etc., not in terms of size. Although a different definition would change the results significantly, this provides reasonable, comparative measure of how widely 'sale' markdowns, are distributed across product assortments. Within women's wear retailing, there has been a reduction in the spread of markdowns in winter 'sales', to around one third of the assortment in both seasons. Space does not permit discussion of men's wear markdowns, although the spread was similar by 1995/6.

The mean percentage markdowns (depth), of items that are marked down, requires no further explanation. Again, there has been a slight fall, with discounts averaging 30-35%. It is noticeable however that the audit evidence

TABLE 2
Markdowns in Main 'Sales': Women's Wear

% Styles Marked Down (spread)		Company				All W-Wear
		A	B	C	D	
Summer	1993	25.3	28.4	7.7	36.5	34.1
	1994	37.2	23.4	11.2	24.1	28.6
	1995	39.4	33.0	41.3	24.8	34.0
	(% change)	(+36)	(+14)	(+81)	(-32)	(0)
Winter	1994	34.7	32.2	46.1	35.6	40.0
	1995	19.1	47.3	27.8	28.2	36.6
	1996	40.5	20.1	41.8	20.2	35.6
	(% change)	(+14)	(-38)	(-9)	(-43)	(-11)
Mean % Markdowns (depth)						
Summer	1993	30.5	31.2	20.9	32.7	31.1
	1994	33.6	28.2	22.2	27.8	31.4
	1995	38.0	25.8	27.8	27.1	30.2
	(% change)	(+20)	(-17)	(+25)	(-17)	(-3)
Winter	1994	32.1	36.3	33.0	35.9	35.4
	1995	43.4	31.3	26.8	32.7	33.3
	1996	37.1	37.5	35.2	28.6	33.3
	(% change)	(+13)	(+3)	(+6)	(-20)	(-6)

Note: to maintain consistency between positive and negative changes, percentage changes are based upon the larger of the two figures, giving a range of changes from -100% to +100%

on case company A does not support the claims of senior mangers that markdown activity has been reduced, either in spread or in depth. Mid-season 'sales' are however more difficult to track, due to their more flexible dates, but the data suggest that their spring 'sales' have tended to grow, whereas autumn 'sales' have reduced. It would appear that the case respondents were stating policy objectives rather than outcomes, illustrating the importance of independent validation. The company B data are more consistent with the stated patterns. Their winter 'sales' have become more focused, with relatively high discounts: the summer 'sales' now include more of the assortment but with lower discounts.

CONSUMER PREFERENCES

Preferences for 'sale' formats were investigated within the main consumer surveys, while accepting that experimental methodolo-

gies would be preferable in this context. We consider therefore some of the stated preferences for 'sale' price duration and frequency providing an additional perspective upon markdown strategies in the 'sales'.

Table 3 summarizes the responses to three questions, plus a number of bivariate tests of group preferences. Faced with a choice between two large 'sales' per year, or a larger number of short 'sales', most who expressed a choice favored the two large 'sales'. This lends support to the efforts of the retailers to focus most 'sale' activity within these periods. The minority favoring more but shorter sales tended to be single and/or younger, reflecting possibly a less established routine of apparel shopping. Older and/or married shoppers were more likely to agree that 'sales' last too long, further indication of their preference for a more traditional, orderly 'sale' regime. Females were more likely to express preferences and to agree

TABLE 3
Preferences for 'Sale' Duration and Frequency

Customer Group/Type	How Many Sales Preferred			Sales last so long you do not notice them anymore Mean (-3 to +3)
	Two Large Sales (%)	More Shorter Sales (%)	No Opinion (%)	
ALL	56.2	28.0	15.8	0.97
Males	50.9	26.1	23.0	1.04
Females	58.8	28.7	12.5	0.89
Chi-dq./t-test p =)		(18.971) (.000)		(1.53) (n.s.)
Marrieds	58.4	24.5	17.1	1.12
Singles	52.2	33.0	14.8	0.68
Chi-sq./t-test p =)		(8.539) (.014)		(4.42) (.000)
Full-timers	55.2	25.3	19.5	0.94
Others	57.6	29.0	13.4	0.97
Chi-sq./t-test p =)		(7.365) (.025)		(-0.42) (n.s.)
Age: Means	39.7	36.5	39.5	
F Ratio/Corr p =)		(4.490) (.011)		+.236 (.000)
Income (p =)		(n.s.)	(n.s.)	

that they could tell when 'sales' start and finish: this would suggest greater involvement/interest on their part.

CONCLUSIONS

In spite of their ubiquity in many retail sectors, 'sales' remain ill defined and largely neglected within the retail/marketing literature. The intensive investigation of item-level price promotion has not been reflected at the store level, other than in an emerging debate between 'high-low pricing' and EDLP/EDFP (everyday low/fair pricing) strategies. A brief review of these alternative strategies suggests that with the exception of the lowest cost operators, EDLP tends to be less effective than temporal adjustments of prices.

Two apparel retailers within this study are coping with problems of excessive markdowns, although brought about by different causes. Each is striving to bring order back into its 'sale' activity, through improvements in buying, pricing, supply chain management and information systems. One of the chains has developed differential markdown strategies for different categories of apparel. Both are pursuing 'clear as you go' policies to improve stock turnover. The view expressed is that two, major 'seasonal sales' do assist in clearance, generate interest/excitement and do not damage pricing credibility. Data derived from monthly audits in the stores of 21 women's wear chains do not confirm the reduction of markdowns in one of the case studies. The audit provides unusually detailed insights into the spread, the depth and the margin impact of 'sale' activities.

Data from a large study of shoppers generally support the view that two major 'sales' are preferred. It must be recognized however that 'sale' shoppers, although reflecting a broad cross-section of the shopping population, do naturally have a predilection towards the major events. Although some differences in preference are associated with age and gender, surprisingly, no significant associations with income emerged.

It is recognized that this study is limited to one country, the U.K., and that the consumer study, while large, was confined to shoppers in the 'sales'. Many further opportunities exist,

including experimental methodologies, to improve the 'science of the sale'. One obstacle to research, encountered especially in one of the two case studies, is the sensitivity surrounding markdowns, seen by some as a measure of buying errors. However, as a key component of high-low pricing, the 'sale' merits further attention in terms of retail strategy, consumer behavior and consumer protection.

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