Item End Date Analysis in Oracle Retail's Markdown Optimization Solution

Whitepaper

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Preface

This document outlines the factors that need to be taken into account while setting the end date for merchandise by a retailer. Choosing the right item start is a critical factor in successful merchandise management in a seasonal retail business landscape. This document describes ways to achieve this important success factor when working with Oracle Retail's Markdown Optimization solution.

End Date and its Impact

For a retailer end date defines the date beyond which an item ceases to exist – consequently the date until which an item must be sold out.

Choosing an End Date:

Choosing an end date is one of the most important decisions that a retailer must take. It defines the life cycle length for an item. The end date is chosen on the basis of the retailer's merchandising strategy. Fashion items retained on the shop floor for a long time (late exit date) will affect the look and feel of the store, increase the operation cost e.g.: holding cost, labor, etc. Also, the retailer could bring in fresh items generating more gross margin rather than continue selling items whose natural demand is much lower, thus high alternative cost is also an issue. Choosing a too early exit date might not always tap the potential gross margin that the item would otherwise have generated. E.g.: The retailer could cease to sell the item while there is still some demand in the market resulting in lower sales numbers.
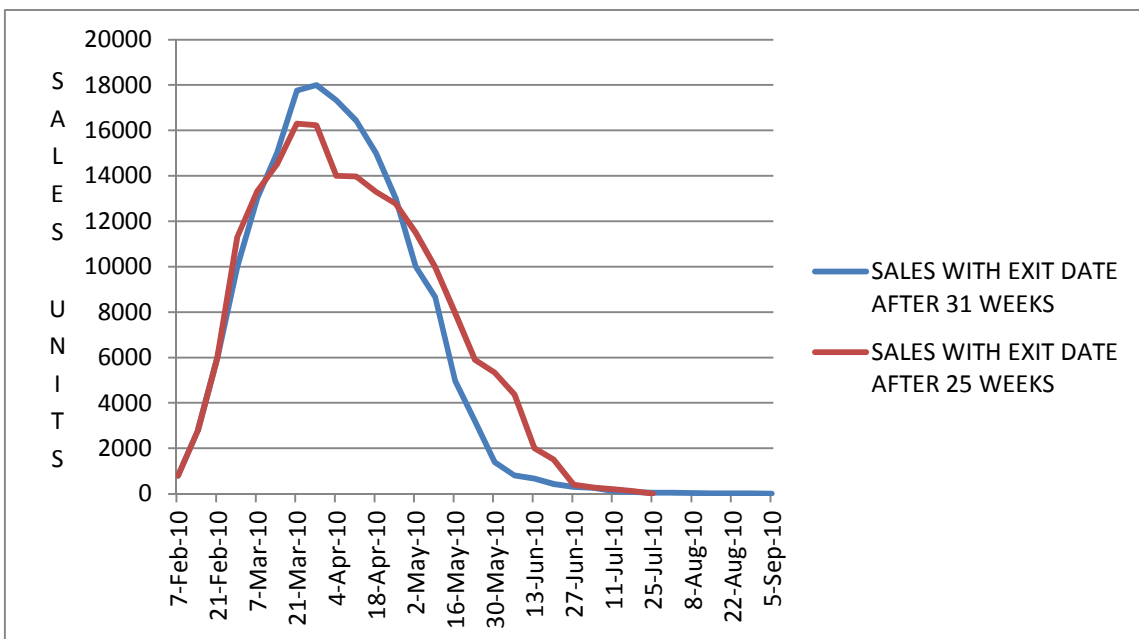
In the above chart, we see that the end date of the item represented by the blue line is 31 weeks into future. The item has almost negligible sales post 27-Jun-10 (20 weeks from the start date) and the lull continues for the rest of its life (another 11weeks). With setting an exit date of 25 weeks into future and MDO recommending markdowns at the appropriate time to support this shorter cycle (represented by the blue red line), we see that most inventory has been cleared in the 25 weeks, making way for newer

merchandise on the shop floor, at the same time reducing the overhead costs associated with holding the item in inventory. There is a fine balance maintained by MDO on clearing the inventory at markdown prices and at the same time maintaining a healthy gross margin.

End Date in MDO

End Date is one of the most important inputs in Oracle Retail's Markdown Optimization solution. An item beyond exit date will not be recommended neither will it be forecasted. End Date defines the time frame beyond which there is ideally no demand for an item. So if a client sets a sell through target of 85% and an end date of 15 weeks from the start sell date, then the MDO application tries to recommend markdown in a manner such that the Sell through Target is attained in 15 weeks. Most often clients lack a disciplined approach in choosing the end date for an item. Choosing an early end date will result in the system suggesting deeper markdowns while an end date chosen too late might result in a scenario of the item not meeting the sell through target and in turn not generating the planned gross margins.

Factors to be considered in choosing the end date for an Item

The end date for merchandise is set at a meaningful level like Department in the product hierarchy. There are few factors that need to be considered while deciding on the end date for an item. The list is not exhaustive and there can be several other factors that need to be considered. However this document outlines the most important ones.

1. Segregation - Basic and Fashion Items: The retailer's merchandise must be segregated into basic, replenished and fashion items as each has different merchandising characteristics. Setting the right end date for fashion items is very important as these are seasonal merchandises and their demand is short lived. This is not the case with basic merchandise which have longer life cycles and tend to have a demand all through the year.

2. Partitioning the merchandise: A partition is defined as a combination of location, product and season. Season identifies when the item starts selling. As a thumb rule most items within a department at a location and introduced at the same time will display similar demand pattern. Hence, it is important to group the items into partitions based on their start sale month. We should ensure that there are enough items in a partition so that the results are reliable and not skewed.

3. Historical end date analysis: List the historical end date for the items within the partition and the sell through achieved on this date.

4. Sell through analysis: List the sell through percentage (75% to 95% - depending on client's request) and the number of weeks in history to achieve the same. Compare these data points along with the historical end date values (from item 3 above) to arrive at a meaningful end date for the items in each partition.

Illustrative example:

PRODUCT DETAILS						WEEKS TO					
ID	DESCRIPTION	LEVEL	ITEM COUNT IN PARTITION	HISTORICAL EXIT DATE (WEEKS FROM START TO END DATE)	SELL THROUGH(%) ON EXIT DATE	75% ST	80% ST	85% ST	90% ST	95% ST	EXIT DATE AFTER EVALUATION
1009001	WOMEN'S SWEATER	DEPARTMENT	88	45	95	20	24	28	30	45	
1009002	WOMEN'S SWEATER	DEPARTMENT	102	40	83	25	30	38	40	48	
1009003	WOMEN'S SWEATER	DEPARTMENT	76	29	80	26	29	35	45	50	
1009004	WOMEN'S SWEATER	DEPARTMENT	66	35	75	35	37	38	40	47	
1009005	WOMEN'S SWEATER	DEPARTMENT	93	30	76	29	31	38	40	45	

The above example illustrates that historically it took 30 weeks to reach 90% Sell through but took an additional 15 weeks to reach 95% sell through. The retailer could have opted for a closer exit date to make way for newer merchandise in the store. Consequently, MDO would have recommended markdowns accordingly at earlier time, optimized intervals and optimal depth to clear the inventory at hand – ultimately achieving the goal of increasing the gross margin.

5. Validating the check: At least two years of historical data must be available – check that there is a similarity in the number of weeks to target sell-through year-over-year.

Conclusion:

When choosing an end date for items, the above list of guidelines can significantly improve performance of seasonal merchandise in terms of obtaining target sell through rates at maximized revenues. Note that the full subject matter of end date management for items can be significantly more complex than the short sample that is described in this paper. For further information on this and related topics, or if you have a specific question or need, please contact us on our website at www.quickbornconsulting.com.

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Quickborn Consulting is a provider of business consulting, IT systems integration, solutions development and support services for the global retail industry. The company supports retailers on their business and IT transformation programs to improve their performance and increase their competitiveness. Quickborn Consulting has local presence in USA, France, Germany, Hungary, India and Ireland, and is present globally through its international network. Read more about Quickborn Consulting at: www.quickbornconsulting.com

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