



Consumer Testing Metadata Reveals Impact of Apparel Markdowns

Greg Petro, chief executive officer of First Insight Inc., shares results of a pricing study.

By Arthur Zaczekiewicz | Oct. 26, 2016

Wrapping up the formal presentations of the summit, Greg Petro, chief executive officer of First Insight Inc., noted how several of the previous speakers cited a retail market that is no longer seeing the growth it once did.

“Apparel sales are down, but showing a gain of 1 to 3 percent on an aggregate basis,” he said. “Conversion rates are also down, and so is retail traffic. In the U.S., the retail square footage on a per-capita basis is 49. In the U.K., by comparison, it is nine. So, we are over-stored, and there are too many products.”



The retail market has also been impacted by changing consumer preferences. Subsequently, retailers have reacted to these changes by marking down apparel. But Petro said these tactics are generating new consumer behavior patterns. He presented results from a research study conducted with Fung Global Retail & Technology that examined metadata from First Insight’s consumer testing over the past three years.

The bottom line, according to Petro: “Consumers are not willing to pay the prices in the market.” In women’s wear, the results of the analysis showed consumers are willing to pay only 76 percent of full price. Petro said shoppers are not seeing the value of full price. Of



Consumer Testing Metadata Reveals Impact of Apparel Markdowns (cont.)

the 10 categories tracked, seven experienced price declines in what consumers are willing to pay.

Petro said in the men's wear market, the "test price dropped 28 percent" over the three-year period — except for underwear, which rose 34 percent. Moreover, the gain was solely for boxers, not briefs. "Consumers are segmenting themselves faster than brands and retailers can keep up," the ceo added.

Overall, the analysts noted in the report that there is a "persistent and significant gap between the planned MSRPs [manufacturer's suggested retail price] tested and the prices consumers are willing to pay" and that shoppers are more "willing to accept price growth in ath-leisurewear" as well as activewear compared to other categories, "and that consumers are unwilling to pay top dollar for footwear."

The residual effect of these changes in consumer behavior includes out-of-stock items shoppers really want as well as bloated inventories of apparel products that don't sell at any price. Petro said bloated inventories and overstocks combined are a "\$1.1 trillion problem globally" and \$252 billion in the U.S. alone. "But brands and retailers can recover those eroded margins" via consumer testing, he said.

"Retailers can increase sales by 7.5 percent without opening a store or expanding or doing a remodel by fixing inefficiencies in overstocks and out-of-stocks," Petro said.