



MARKDOWN MANIA

Consumer Perspectives on Retail
Discounting Strategies

January 2017

As retailers continue to turn to markdowns to entice shoppers, consumers are becoming increasingly price sensitive, creating a demand for larger, more compelling discounts. While big deals may bring shoppers into stores, this is a dangerous strategy for retailers to rely on and build their pricing model around. So how can retailers stop this epidemic and work to change consumer expectations? This consumer survey from First Insight sheds light on the mindset of today's consumers and how they feel about the markdown strategies of many retailers.

Holiday Sales Fuel Markdown Fever

While the overall success of Thanksgiving weekend sales remained relatively static compared to 2015's results, online sales reached new heights. E-commerce, helped by mobile phones, accounted for [25 percent](#) of consumer spending on Black Friday and the two days prior. Considering First Insight found that **60 percent** of people think the **best deals can be found online**, it isn't surprising that a major component of holiday sales growth came from online shopping.

[According to Adobe](#), Thanksgiving weekend brought in \$9.36 billion in online sales, a 16.4 percent increase YoY. Black Friday online sales alone set a new record, surpassing the three-billion-dollar mark for the first time at \$3.34 billion, a 21.6 percent increase YoY. Thanksgiving Day online sales came in at \$1.93 billion.

But it wasn't just the products consumers were falling in love with, it was the markdowns. Consumers expected deep markdowns and that's exactly what they got. First Insight found that **70 percent** of consumers **expected markdowns of 31 percent or more** this season and 56 percent of respondents thought they would find the best deals from November 24-27.

“**WHY WOULD CONSUMERS EVER WANT TO PAY FULL PRICE WHEN ANOTHER SALE IS RIGHT AROUND THE CORNER?**”

A [survey](#) by the National Retail Federation and Prosper Insights & Analytics found that while Thanksgiving weekend was strong for retailers, it was even better for consumers, as many were able to take advantage of big deals and promotions. The study found that more than a third of shoppers said 100 percent of their purchases were on sale.

Yet while retailers rejoice over increased revenues due to deep markdowns, they don't realize the tough path they've paved for 2017 and beyond.

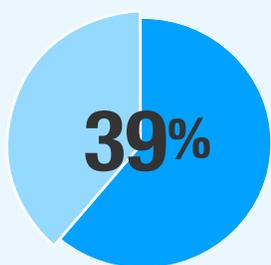
Retail's Approach to Markdowns: The Bigger and More Frequent, the Better

Over the years, retailers have conditioned consumers to seek out markdowns, which has fundamentally changed the way consumers shop. For example, First Insight found that the majority

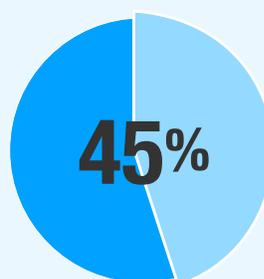
of women are no longer willing to pay full price for items. On average, across all womenswear categories tested between January 2013 and June 2016, consumers were willing to pay **only 76 percent of full price**¹. Consumers not seeing the value at full price is a key driver of the markdown challenge that has been plaguing retailers for years.

Retailers have also created “sale fatigue” for consumers — consider all of the real and made-up occasions retailers plan sales around: One-day sales, Anniversaries, Singles Day, Black Friday, Veterans Day, Cyber Monday, Columbus Day, Back to School.

With these constant sales in mind, why would consumers ever want to pay full price when another sale is right around the corner?



39 percent of consumers are willing to travel to another store to see if they can buy an item at a cheaper price.



45 percent of women must see a markdown of 41 percent or greater to even enter a store

Who Suffers the Most and Who Reaps the Benefits?

So what businesses are hurting the most from the markdown epidemic retailers have created? And are any actually benefitting from this strategy?

First Insight found that retailers like Wal-Mart and Target have a reputation for offering the biggest discounts, as **34 percent** of consumers think they find the best value at big box stores, followed by department stores and off-price retailers at 26 percent each. [The NPD Group found that](#) the strategy of luring consumers with an increase in promotions worked for a number of categories, including home electronics and toys.

45 PERCENT OF CONSUMERS ONLY BUY BRAND NAME ITEMS WHEN THEY'RE ON SALE.

No matter the retailer, however, big brand names take a hit, as **45 percent** of consumers only buy brand name items when they're on sale. This may be why luxury and boutique retailers struggle to gain recognition for offering value to consumers. The survey found shoppers turn away from these retailers when looking for the best value. **Six percent** of consumers think luxury brands offer the greatest value and only **three percent** turn to boutique retailers for the best deals.

¹ In Womenswear, Price Resistance Is Increasing. Fung Global Retail & Technology and First Insight, Oct. 2016.

And as online shopping continues to rise, brick and mortar retailers may struggle to keep up — **60 percent** of consumers see the biggest product markdowns online and flock to online retailers to shop. One-click shopping makes it easy and convenient for consumers to compare prices and get the lowest price possible, reflecting the markdown lifestyle they've become accustomed to. This was shown by a major shift to online shopping during this year's holiday shopping season — an estimated 15 percent more than last year.

“**AS ONLINE SHOPPING CONTINUES TO RISE, BRICK AND MORTAR RETAILERS MAY STRUGGLE TO KEEP UP**”

How Retailers Can Fight the Markdown Epidemic

It's important to realize that you can't just switch up your pricing via different store locations or online, as it will hurt consumer loyalty.

“**69 PERCENT OF CONSUMERS THINK RETAILERS SHOULD OFFER THE SAME PRODUCT PRICING AND MARKDOWNS NO MATTER WHERE THEY ARE SELLING IT**”

69 percent of consumers think retailers should offer the same product pricing and markdowns no matter where they are selling it.

91 percent of consumers would be upset at a retailer if they bought a product and found the product was less expensive at a different location whether in-store or online.

2016 was a difficult year for the retail industry, and the markdown strategy is a big reason why. In order to move forward in 2017, retailers need to shift consumer expectations of their products and what they're worth.

Here's what retailers can start doing now to help cure their businesses of this markdown epidemic created by the industry:

- **Re-examine today's pricing strategies:** It can be easy to give in to markdown pressure by continuously discounting prices to compete with other brands, but that may do more harm than good in the long run. Getting the initial price right is a key tool for reducing markdowns and maintaining gross margin percentages.
- **Invest in technology:** Retailers must take advantage of new technological developments and today's trends to keep pace with the rapidly moving consumer landscape. Technologies such as predictive analytics that incorporate the voice of the customer will help retailers more accurately sense and understand demand. Data analytics have become crucial to marketing success, offering insights into consumer habits and allowing retailers to lower the risk of offering products and services that do not align with consumer preferences.

- **Understand the underlying value of a product:** As consumers become increasingly price sensitive, retailers need to understand the true value of their products and how they can increase that perception of value. Manufacturers must evaluate which features of the product shoppers are willing to spend on and play up those features.
- **Shorten cycle times from design to delivery:** Long distances between factories and delivery areas can be problematic as demand can't always be predicted and long lead times often mean the desires of the consumer are many months away from being fulfilled. Retailers can combat this issue by building factories or moving manufacturing closer to where the demand for the product is.

The markdown epidemic should not be taken lightly, and it is time for retailers and brands to take the necessary steps to deal with it once and for all. While it won't be corrected overnight, retailers can fight the issue through carefully crafted strategies focused on understanding customers and reinforcing the value of their products.

First Insight Data Methodology

First Insight's consumer survey polled 1,303 consumers across America regarding their sentiment around retail markdowns. The survey was conducted online between October 29 and November 3, 2016.

About First Insight

First Insight empowers retailers and manufacturers to drive new product success by introducing the right products at the right price.

Through the use of online consumer engagements, the First Insight cloud-based solution gathers real-time consumer preference and pricing data and applies a predictive model to create actionable insights, which inform new product decisions before products hit the market.

Companies use the First Insight solution to select the most profitable new products for improved sales, margins and inventory turnover and reduced markdown rates.

Implementing First Insight's predictive analytics solution gives actionable guidance for product design, buying, assortment planning, pricing and marketing decisions. Customers include leading department stores, specialty retailers and manufacturers.

For more information, please visit www.firstinsight.com

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