



Fashion Retailer Improves Inventory Performance and Increases Weekly In-Season Sales with AI-enabled Lifecycle Pricing and Markdown Optimization

SUMMARY

Customer

A leading omnichannel fashion retailer

Industry

Retail

Challenge

Optimize the revenue from in-season clearance across all channels for all brands

Solution

Zebra Workcloud Lifecycle Pricing

Results

- Pilot implementation delivered in under 4 months
- Native support for regional and multi-channel pricing
- Dramatic increase in clearance inventory turnover without hurting margin

Operating with three major brands, this omnichannel fashion retailer operates over 300 stores.

Challenge

Overcome Multichannel Inventory Management Challenges to Optimize In-Season Sales

With growing e-commerce channels and increased online shopping behavior, omnichannel retailers are grappling with the increased complexity brought on, in part, by the combination of possibilities for direct and in-store fulfillment. And if the last few business cycles have taught us anything, it has been the importance of proactively managing inventory levels against the impact of business cycle swings and shifts in consumer demand. Siloed decisions around allocation, promotions, in-season pricing, and especially, inventory transfers, fail to capture the opportunity for margin improvement that lies in the interconnectedness of online and stores.

Today's in-season inventory management needs a more holistic view, taking into consideration the entwined dynamics of demand behavior across channels, including buy online, pick up in store (BOPUS) and delivery from store. Pricing is a powerful lever for better aligning inventory to demand, and effectively the only lever once products have hit the shelves. Coordinated pricing action for in-season and clearance season sales individualized to match each product and location's own demand and inventory drives results: better sales, better margin, better sell-through.

Without a holistic view of pricing by location to drive in-season clearance, this retailer's efforts to manage for inventory understock and overstock was becoming even more challenging.

Complexity Beyond the Ability for Excel to Handle

Without an automated way to optimally incorporate optimized price recommendations into in-season fulfillment decisions, this retailer's fulfillment planners were restricted by Excel tools that couldn't see the forest for the trees. These spreadsheets were limited to prices based on rules-based forecasts, required cumbersome manual data entry and evaluation, and operated at the chain level only. As a result, in addition to reduced revenue from sub-optimal clearance cadences, fulfillment decisions based on shipping distance alone caused understocking in areas of high demand. Inaccuracies in pricing and fulfillment also caused pain downstream, for example, when stores were called on to fulfill due to unpredicted stockouts, causing the store's P&L to be adversely impacted by the unplanned higher labor costs.

Solution

The retailer engaged Zebra Workcloud to help replace aging Excel-based tools with a lifecycle pricing and markdown optimization module that would advise all aspects of in-season clearance, including fulfillment considerations across channels. In addition, optimal pricing recommendations that considered demand at a localized level was critical to managing inventory turns.

Inventory and Pricing Optimization—Interconnected Decisions Driven by AI Algorithms

Zebra's Workcloud **Lifecycle Pricing (LCP)** module is a simple-to-use price management tool advised by a highly sophisticated Demand Intelligence platform that understands the interplay of demand and pricing at a granular level throughout the multiple phases of a product's lifecycle. At the outset of product selling, sales growth and margin are paramount, but as the lifecycle nears end of season, it gradually become more important to control the inventory levels to maximize overall profit and ROI. By combining a multiple-life-phase optimization approach with fast learning models of demand, pricing can help steer in-season promotions or clearance markdowns to proactively manage inventory to meet overall lifecycle business goals.

Markdown Optimization (MDO), an integral component of Zebra Workcloud's Lifecycle Pricing module, helps retailers increase margins and sell-through with cleaner seasonal transitions. It couples a forecast—that incorporates all demand drivers across stores, online fulfillment and returns—with a workflow that enables planners to focus on the SKUs by location where demand is predicted to be most variable.

SUCCESS STORY

A LEADING OMNICHANNEL FASHION RETAILER

Phase 1: Markdown Optimization to Coexist with the Current OMS

Starting in 2020 with a pilot for two season codes, the Zebra team implemented and deployed optimized clearance pricing recommendations at the store level and at the channel level across the online webstore and the additional stores. The solution delivered easy-to-use presentation and manipulation for speedy adoption and also met the data requirements for smooth and automatic integration into the retailer's existing order management system (OMS).

The areas of improvement drove sell through with better timing and choice of fulfillment method:

- Drive to 95% sell-through by the exit date,
- Expedite fulfillment of web orders from slow turning stores,
- Prioritize shipping before markdown pricing is executed,
- Plan for any additional store labor as fulfillment shifts from the DC,
- Transfer inventory between stores when geographically feasible,
- Transfer inventory to outlets from specialty stores, where appropriate, and
- Ensure that most inventory is allocated before clearance.

The pilot was implemented, delivered significantly improved results in roughly four months and was expanded to include all sites from 2 of 3 brands.

Phase 2: Additional advances with Price Banding and Site Level Pricing Capabilities

Recently, the retailer has expanded their investment in capabilities to improve their markdown process. Through an upgrade to the latest Zebra Workcloud solution, they plan to implement many improvements—but two of them are viewed as key to driving more value.

Site Level Pricing—Despite some constraints in their price execution system, by working together with the Zebra team, a methodology to automate the coordination between price optimizations and pricing execution was engineered. Since the best price comes from both an understanding of store level demand and store level inventory, this retailer has long recognized the improvements in pricing results from executing at store level for all their brands. Now, supported by functionality from Zebra Workcloud, they are able to execute pricing optimized that is to the true characteristics of each store site.

Price Banding—Often, the ideal pricing scenario is not the ideal merchandising scenario. This was especially true for this fashion retailer when it came to product markdowns by color. While the ideal is to price by color or pattern in response to the actual sales demand and inventory of each color within a product program, this could lead to a multitude of recommended prices that are difficult to present on the online website or in the store. Working with Zebra, the retailer is now able to leverage new functionality called price banding. This permits the specification of an optimal limit to the maximum number of prices—in order to reduce and price clutter than could arise from demand driven recommendations without damaging the integrity of the optimization result.

Results

For this omnichannel fashion retailer with multitudes of SKUs and the pressures of seasonality, the relationship with Zebra delivered on many fronts:

- A pilot implementation, delivered in under 4 months, that met success criteria and led to company-wide adoption
- Support for pricing optimized to the regional and site level driven by AI-enabled demand forecasting operating at that level of precision
- Markdown pricing that reflected the margin benefits from the optimal fulfillment path
- Price banding controls that worked in conjunction with the realities of merchandising

With these pricing capabilities integrated into their OMS, the result was a dramatic increase in clearance inventory turnover without hurting margin.



“Zebra Workcloud has made spreadsheet based pricing implementation a thing of the distant past. We look forward to embracing more AI-driven capabilities from their suite of capabilities”

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