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Markdown frenzy: Stores desperate to clear inventory slash prices

Jaclyn Trop / The Detroit News

Shoppers can expect to see unprecedented discounts -- as much as 80 percent -- next week on everything from boots to bath soap, as retailers make a final effort to sell winter merchandise.

Starting Monday, stores will advertise massive sales "with discounts we've never seen in our lifetime," said retail analyst Ken Dalto. "They're going to slash and burn up to 80 percent."

But the deluge of discounts that started in November are squeezing merchants, and sending a ripple up the retail supply chain that will be felt for months to come, analysts said.

The consequences of epic markdowns will reverberate throughout the economy, affecting businesses that design, make, ship and buy merchandise. With 1 in every 5 American workers employed in the retail sector, retail is a cornerstone of the U.S. economy, said Ellen Davis, vice president of the National Retail Federation in Washington, D.C.

"Today's retail pain becomes next month's manufacturing pain," said Marshal Cohen, chief retail analyst at NPD Group, a market research firm in Port Washington, N.Y.

The discounting that began at the start of the holiday shopping season was largely unplanned, part of a frenzied attempt to move merchandise ordered long before the downturn began in October. Decreased shopper demand means that retailers will order less inventory for spring and summer.

This will generate less business for manufacturers and designers and less traffic for railroads and ports. Ports in Long Beach, Calif., and Seattle have already begun reporting fewer shipments and a decline in freight traffic.

The trouble could strike factories within six months and mills and suppliers of raw materials within the year, Cohen said.

The impact will be more immediate on retailers, because they are locked into rates with manufacturers and shipping companies that were established several months ago and they depend on winter sales to cover costs. Holiday sales are projected to be the worst in decades; several national chains have already filed for bankruptcy protection and more are expected.

Industries with particularly long lead times, like the eight to 10 months for toys and consumer electronics, will be most in trouble. Retailers such as Wal-Mart, which have the benefit of shorter lead times, may fare better because they are able to react more quickly to consumer demand, said Jeffrey Stoltman, a marketing professor at Wayne State University.

To compensate for lost revenue, retailers will cut budgets for advertising, inventory and workers.

The phenomenon is expected to persist through the first half of the year as retailers try to clear inventory. Even if the economy recovers by late summer, Cohen said, it will be too late to stop the tidal wave effect.

"It's now just get rid of anything at all costs," Cohen said.

In addition to further discounts on already marked down merchandise, retailers will "bundle" items, offering buy-one, get-three-free promotions, he said.

"We've spoiled the consumer. We've trained them to wait for the sale."

Cohen said consumers will most likely be "detoxed off of price reduction" by fall when a stimulus package and other policies of President-elect Barack Obama's administration may take effect.

But shoppers may build immunity to discounts, much in the way rebates from the Big Three automakers did not spur sales.

"Just discounting isn't really enough anymore," said Pam Danziger, founder of Unity Marketing, a Stevens, Pa.-based marketing firm specializing in luxury goods. "Shoppers are looking for more than just percentages off."

Retailers will have to entice shoppers by creating the perception of necessity and "great value," she said.

"We've been on an extended shopping spree for 10 to 20 years. Consumers really don't need anything now."