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Retailers’ inventory gluts may not resolve anytime soon

Article

The challenge: While many retailers have made headway in addressing the inventory surplus accumulated in recent years, a considerable portion continue to struggle with excess supply.

- **Wholesale inventory-to-sales ratios remain elevated**, which suggests destocking has a ways to go, per US Commerce Department data.

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- **Only 36% of supply chain managers expect inventories to return to normal this year**, per a new CNBC survey.
- An equal share expects the challenges to persist into next year.

Slowing demand as consumers pull back on discretionary spending could further compound the issue.

Why it matters: Roughly 20% of the excess inventory sitting in the warehouses of the supply chain managers surveyed by CNBC is not seasonable, which helps explain why over half of the participants plan to keep the items in warehouses.

- However, those carrying costs can weigh on retailers' bottom lines, which is why many companies have turned to promotions to move excess inventory—even if doing so eats into their margins.
- For example, after **Levi Strauss** ended Q4 with inventories up 58% year-over-year (YoY) on a dollar basis, it leaned into discounts to drive down its inventories to 33% YoY by the end of Q1. But that progress came at a cost: The company's **Q1 gross margin was 55.8%, 350 basis points less than its gross margin a year ago**.
- It was a similar story at **Nike**, which **reported its gross margin in fiscal Q3 declined 330 basis points YoY to 43.3% as it turned to markdowns to reduce its inventory** from $9.3 billion at the end of the previous quarter to $8.9 billion (which is still 16% higher than the same period a year earlier).

Looking ahead: Nike is one of many companies that have cut back on their purchases from suppliers due to softness in consumer demand as they continue to work through their inventory glut.

- Others, including **Walmart** and **Target**, have shifted their inventory mix toward food and household essentials rather than discretionary purchases.
- Truck visits from warehouses for the top five retailers by volume have declined as fewer goods are moving from distribution centers to stores due to softer demand, per Motive.

The big takeaway: Many retailers are still quite a ways away from getting their inventory levels back to normal.

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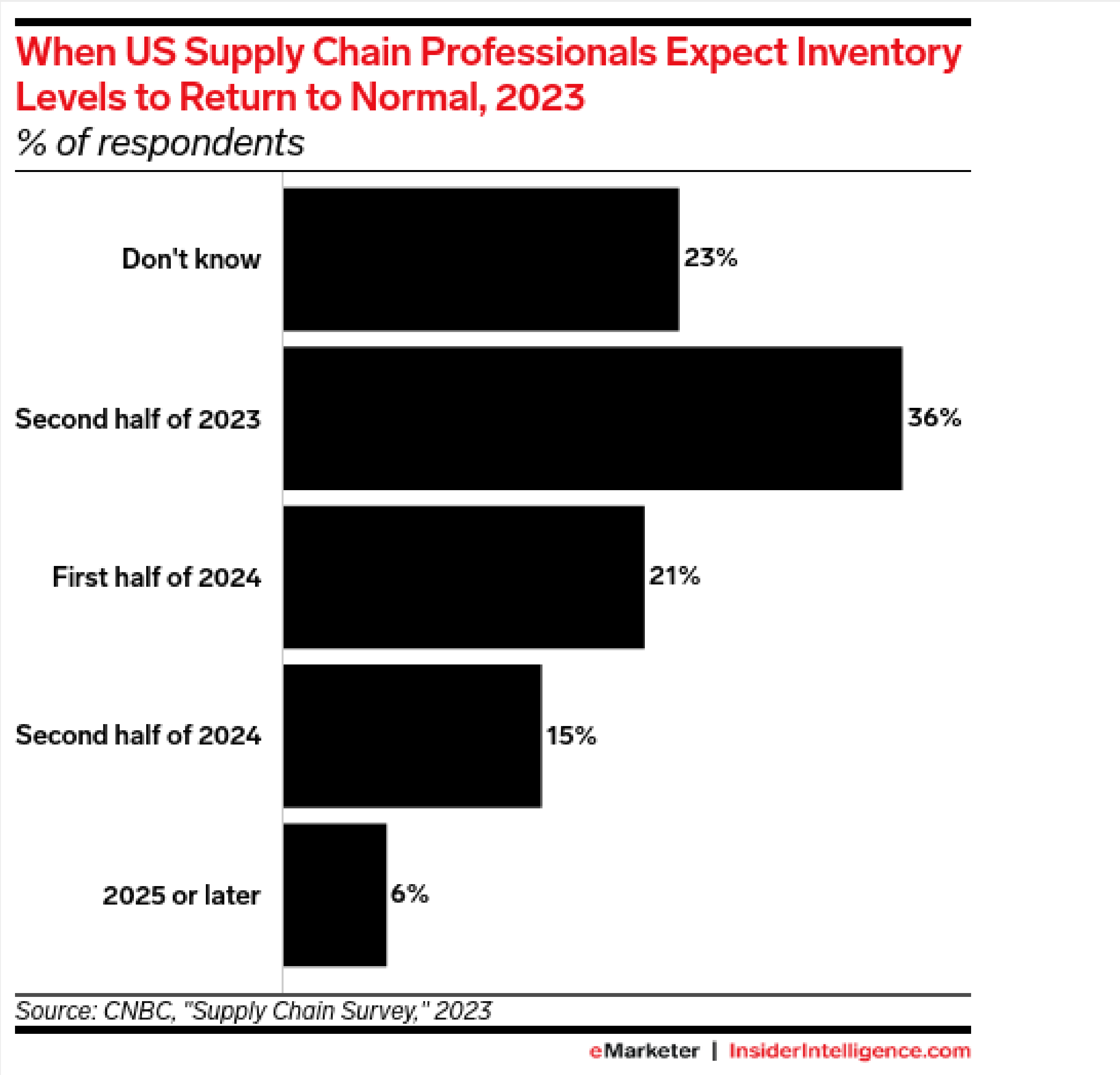
- Given the distinct possibility of a recession or non-recessionary economic slowdown, retailers may need to take a short-term hit to their margins by offering discounts and promotions to put themselves in a better position in the latter half of the year.



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