

# Discounting may be key for retailers to capture holiday sales. Here are four steps to make sure you're doing it right

Article

We're knee-deep into the holiday season, and it's shaping up to be **a busy one**. The star so far: deals, deals, deals.

It's become clear that consumers are shopping, but only if the price is right. For example, during the Cyber Five, categories with the deepest discounts, like apparel and electronics, were also some of the best-selling, per Adobe Analytics.

**Let's talk discount strategies.** Though a retailer's first instinct may be to treat markdowns as a quick way to make a dollar or get rid of inventory, a successful markdown strategy is a multilayered approach.

Here's a four-step process from McKinsey & Company to ensure **markdown success**:

**1. Identify what to put on clearance.** Which categories or items are best suited for discounting?

**Do:** Compare item performance against current sale plans and identify over- and underperformers.

**Don't:** Mark down items that are performing well as they will most likely continue to sell at full price in the future.

**2. Optimize by location and channel.** Markdown success can depend on the time of year, the market, and even the store assortment.

**Do:** Conduct item-level analysis for each store/location/channel.

**Don't:** Apply a one-size-fits-all approach. Some channels (like digital) may accommodate a variety of markdown approaches without affecting the customer experience.

**3. Create a markdown schedule.** Use your data to run scenario analyses to determine the timing and frequency of markdowns.

**Do:** Apply markdowns in phases. Best-in-class retailers usually start with small discounts before lowering prices a few weeks later.

**Don't:** Forget to revisit markdown choices and adjust as needed.

**4. Ask: How low should you go?** The price has to be low enough for consumers to bite, but high enough that it's not tanking your bottom line.

**Do:** Optimize for both gross-margin and sell-through targets.

**Don't:** Waste time on price reductions that aren't compelling enough for low-performing SKUs.

**You don't have to go it alone.** Technological solutions using AI and machine learning can help.

- AI may be a **game changer for pricing** strategies because it allows organizations to use data to solve problems more efficiently, according to PwC.
- Companies like **Levi's** are already implementing AI to help with targeted pricing, which the company's chief strategy and AI officer said has helped boost revenues.

**Why we care:** Even though prices are starting to come down, consumers are still looking to save.

- Nearly three-quarters (74%) of US consumers are **trading down** to save money, according to McKinsey.
- A majority (60%) are adjusting the quantity or pack size of the items they buy and 44% are delaying purchases. Other ways consumers are **keeping costs down** include changing retailers for a lower price or discount, changing brands or switching to private label brands for a lower price product, and using **buy now, pay later**.

At the same time, **many retailers** are still struggling to get rid of excess inventories as supply chain issues ease and consumer demand wanes.

- Apparel, fashion, and luxury categories are most likely to have higher inventory levels, as well as home goods, according to McKinsey.
- Drug stores, mass retailers, and grocers are among the least likely to have higher inventory levels.

*This was originally featured in the Retail Daily newsletter. For more retail insights, statistics, and trends, [subscribe here](#).*