

Mark-Down Pricing

The Study of an Indian Fashion Retailer

Saji K. Mathew, Indian Institute of Technology Madras, India

Pratap Chandra Biswal, Management Development Institute, India

ABSTRACT

Discount sales have been increasing in Indian retailing due to the growing competition in the sector. In this research the authors analyze the data of a fashion retail store to study the effect of mark-down pricing on the sales. Their store level analysis shows that mark-downs have a positive impact on sales in an aggregate level. At a style level, however, some items showed a negative and significant effect on sales. This negative influence is explained by the predominant focus of the Store to attract high end customers characterized by conspicuous consumption.

Keywords: Data Mining, Discount, Fashion, Indian Retail, Mark-Down, Pricing, Retail Management, Style-Wise Sales

INTRODUCTION

Driven by favorable demographics, rising disposable income, increasing final consumption expenditure, and growing urbanization, the retail sector in India has grown at a compound annual growth rate of 10-14% during 2006-08 (CRISIL, 2009). During this period, organized retail, with a huge unexplored market, grew at a much faster pace of 28% due to large expansions by existing retailers and entry of many new players. Following the economic rebound post 2009, CRISIL Research expects the Indian organised retail sector to grow at a CAGR of 22% to reach INR 2570 by 2013-14¹. Moreover, the 2009 Global Retail Development Index (A. T. Kearney, 2010) ranked India as the #1 destination for international players.

Fashion retailing involving apparel and footwear is a steadily growing business in the Indian retail industry (Joseph, Soundararajan, Gupta, & Sahu, 2008). The apparel market in India was estimated at around US\$16-17bn in 2006 and is dominated by unorganized players having a share of about 80-85% (Cygnus Business Consulting & Research, 2007). This market has been growing at 10-12% per annum. Apparel retailing is the country's second largest opportunity for organized retailers (Footwear retail being the number one). Some of the factors driving the demand for fashion items include changing lifestyle, entry of leading international brands like Tommy Hilfiger®, greater awareness, exposure to international trends, increased foreign travel, and fast-evolving retail industry (Ernst & Young, 2006). The competitive advantage of firms in this market is related to their ability to produce designs that capture

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the imagination and preferences of consumers, in addition to cost effectiveness (Cygnus Business Consulting & Research, 2007). Further, the economic liberalization in India post 1990 and the subsequent Government policies led to the entry of International fashion brands in India. The entry of global players in the Indian market has seriously challenged the home grown retailers. One distinct advantage of the new entrants (e.g., Wal-Mart through cash and carry format) is their access to advanced analytics for informed decision making (Davenport & Harris, 2007). Although several studies have been reported on analytics to support decision making (e.g., Davenport & Harris, 2007; Hui & Wan, 2008; García-Crespo, Colomo-Palacios, Gómez-Berbís, & Martín, 2010; Walczak, 2010), data mining applications in the Indian consumer context has been much less.

Growing competition in retailing has forced several Indian retailers to resort to discounts of various types such as flat discounts, mark-downs, and clearance sales. In recent times mark-down practice has been an important pricing policy for fashion retailers in India (<http://3isite.com/articles.htm>). A decade ago a 50% discount for a branded footwear or apparel gave rise to doubts in the minds of consumers. Such sales often comprised store rejects and used items. Today the concept of discount sales has taken a complete turn with the terminology also being changed to value retailing. Discount sales also appears to be a way to combat recession hit fashion retail in India (Jaggi, 2009).

Pricing decision is one of the important impact factors on profitability of Retail business. In the fashion industry, since the trends in dressing vary as often as three to four times a year (Heching, Gallego, & Ryzin, 2002), prices are marked down when the sales of a particular style are declining or when the existing stock needs to be cleared out to make space for the new stock suitable for the next season. A recent study highlights the use of analytics driven pricing decisions in retail sector in the developed markets (Davenport & Harris, 2007). Pricing decisions have been strongly backed by scientific models implemented in business

intelligence software (Pashigian & Bowen, 1991; Mantrala & Rao 2001). Early adopters drew competitive advantage through advanced analytics using data mining techniques (Davenport & Harris, 2007). US retail giant Wal-Mart has one of the largest databases in the world which provides the company a unique analytics capability in several areas ranging from supply chains to customer loyalty.

In the Indian retail context, mark-down decisions are made intuitively by the executives of the company due to the lack of data mining and analytics practices. Although there have been reports in the trade press about Indian companies moving towards data driven decision making (“Business intelligence market poised,” 2003; Harshawardhan & Hariharan, 2008) due to competition, mark-down pricing in the Indian consumer context has not received due attention in literature. Indian retailers operate in a market where consumer behavior follows a very different pattern as compared to North America (Bijapurkar, 2009; Bellman, 2007). According to Bijapurkar (2009), “the nature of emerging market economies is fundamentally different. Emerging market economies are large in their total size but small in terms of per capita income, India being a prime example. And that is what makes all the ‘doesn’t everybody know’ sort of global ideas, on price-performance points and margin-volume equations, ineffective in such markets (p. 6)... emerging markets today-such as India-are not what the developed markets were in their infancy. Therefore the assumption that Indian consumers today are like what American consumers were twenty years ago is deeply flawed” (p. 8). Ghazanfari, Mohamadi, and Alizadeh (2008) segmented countries based on customer value which further confirms this difference in customer behavior. Our study addresses this gap by studying the mark-down pricing followed by an Indian Retailer and the impact of the current pricing policy on sales.

MARK-DOWN PRICING

Life cycle pricing stages of a product involve new product introduction, category pricing,

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