



## Clearing the Shelves

Jan 1, 2002 12:00 PM , Melissa Dowling

Post-holiday overstocks are like a New Year's Day hangover: Once the party, or the catalog order curve, is over, it's clear you've had too much. But the effects of a warehouse full of unsold goods linger far longer than the feeling after too much imbibing.

For one, you have money tied up in excess stock. Also, overstocks take up valuable warehouse real estate that you could be using to receive and store goods that you can sell. So once you've determined that you have excess merchandise, your top priority is getting rid of it.

Though you may have little or no chance of selling overstocks at full price, you can always try simply relisting the items in your next catalog. This strategy works best for products for which you have a full range of sizes and colors and, certainly, for items you think are worthy of another shot. For instance, you may have bought too much of a product-based on the manufacturer's minimum requirements — that sold fairly well but just didn't meet your projections.

Relisting may sound like a no-brainer, but it's not effective for most products that didn't sell the first time. In fact, some experts caution that relisting leftovers could affect the look of the rest of your catalog and lower response, as the dogs may draw attention away from the new items you hope will sell better. That's why catalogers serious about unloading overstocks typically start by cutting prices.

### Markdown madness

One of the easiest and most effective methods of reducing overstocks — if your brand strategy permits — is to “red-line” prices on page and offer discounted items in your main catalog. Many apparel catalogers use markdowns, since fashion can be fickle, and it's hard to know exactly what will sell. In any fashion business you have to commit to inventory well in advance, says Allen Abbott, vice president of marketing for Fleetwood, PA-based men's apparel mailer Paul Fredrick, and at the end of the season, “you have what you have.” Paul Fredrick starts liquidation by red-lining items in its main book; it also creates catalog spreads of sale merchandise and mails a separate clearance book each season, Abbott says.

When liquidating products in your main book, you need substantial quantities of overstock to mark down; the exact amount depends on the catalog's circulation. You should factor in the size of the customer base you'll mail to, the number of SKUs available, and the depth and breadth of colors and sizes on hand, says consultant George J. Mollo Jr., principal of Nanuet, NY-based G.J. Mollo Associates. If you have a lot of “brokens” — stock in some sizes and colors rather than a significant volume available in many options — and you plan to mail hundreds of thousands of catalogs, “you're going to run out of things and disappoint your

customers,” he says.

Particularly with apparel, you have a better chance of unloading overstocks if the marked-down items are still in season. As Abbott puts it, fashion is “day-old bread” once the season is over. This means you have to act fast to identify the slow sellers once the edition drops so that you can get a redlined edition in the mail in the same season.

But many catalogers don't want to diminish their brand by offering discounted prices in their main book, says Mollo, so they'll create a separate sale book and mail it only to customers, not to prospects. With any discounting strategy, pricing and space allocation in a clearance book will depend on the amount of product you have and the circulation you have set. In other words, if you have a vast quantity of an item, you'll want to discount it deeply and give it a lot of space in a sale book. If you opt for a clearance catalog, you may want to include some basics or top sellers that you can rebuy in quantity and offer at a slight discount in a sale book, which can make the catalog more appealing. (See “Merchandising a Sale Book,” below.)

For single products or items for which you have only limited quantities of choices, you might use a bounce-back package insert. You can also try having your telephone service reps (TSRs) promote price specials on overstocks while customers are on the phone placing an order. Rye, NY-based gifts cataloger Lillian Vernon, for instance, uses discounted phone specials on inbound calls, says spokesperson David Hochberg, as well as sale and clearance catalogs and package inserts.

#### Alternative outlets

The Internet is a fast and cost-efficient way of getting rid of unsold goods. Another benefit of the Web is that you can usually remove products from the site as soon as they sell out. And you can also protect your catalog brand by avoiding discounts in your print book. Ventura, CA-based outdoor gear and apparel marketer Patagonia, for instance, does not feature discounted items in its catalog but liquidates product on the Web, says catalog director Morlee Griswold.

Most marketers have a clearance section on their core Website. If you have a significant quantity of overstock, you might opt for a separate clearance site, like outdoor clothing and equipment cataloger Recreational Equipment Inc. (REI). You might consider this to isolate your sale business or raise the profitability of your core Website. Real-time inventory status capability is key to any online liquidation effort, however.

Company stores or outlet stores are another popular way to unload overstocks, though any retail operation — even an outlet — has overhead costs such as space, fixtures, displays, and sales clerks. “You need to factor these expenses into your recovery percentage of your liquidation plan,” says Mollo.

On the other hand, outlet stores can help you on initial buys and fill rates of basic items, and even enable you to get price breaks by ordering more than the minimum quantity. “When I was with J. Crew in the '80s, we had 30-something outlet stores. I could always buy more of, say, polo shirts because I knew they would sell in the outlets,” Mollo says.

You can also hold employee, warehouse, and tent sales to move overstocks. Paul Fredrick

holds up to eight warehouse sales a year at its Fleetwood facility. Lillian Vernon, which also operates 15 outlet stores, for the past eight years has held annual tent sales at the Pavilion Convention Center near its Virginia Beach, VA, distribution center. The four-day sales typically attract more than 16,000 customers, Hochberg says, "and we've been able to close out roughly \$800,000-\$1 million worth of merchandise."

You have to keep in mind that these events take time and cost money to plan and stage. If you hold the sale off-site, you have to move the product there and set it up; if you invite the public into your warehouse for the sale, you must factor in security issues.

### Working with jobbers

Your last resort is going to be a liquidator or jobber. Don't expect much of a recovery rate, as jobbers typically pay \$0.06-\$0.10 on the dollar for merchandise. But jobbers can be a safe bet for disposing of returns or damaged goods. They will often buy such goods by the pallet, so you don't have to check exact quantities. "Even if you got only \$200 for a pallet, that's still more than if you threw it out, plus you've cleaned out your warehouse," Mollo says.

If you have a brand to protect, use caution with liquidators. Your product offered at a deep discount by a closeout specialist could damage your brand more than the cash you take for the goods will help your bottom line. But you can stipulate how and where the goods are disposed of, Mollo says. For instance, a designer apparel marketer may mandate that its merchandise be liquidated only overseas.

And finally, if you can't sell your overstocks at any cost, consider donating the goods for a tax credit. You'll need to consult a tax professional about specifics, however, as the rules and regulations vary widely and depend on business structure.

The bottom line is that overstocks are a fact of life for catalogers, so it's important to have a strategy to get rid of them as cost-effectively as possible and in a manner that's appropriate to your brand.

As with that celebratory New Year's champagne, moderation is a fine thing. But if you've had too much — be it bubbly or merchandise — hopefully you'll find a satisfactory cure for your headache.

### Merchandising a Sale Book

**The best way to merchandise a sale catalog is to fill it with the overstocks for which you have the greatest quantities, right? Wrong. Experts advise including some of your best-sellers, basics, and in some cases, unique product offered at a special price in addition to your discounted overstocks. You have to remember that the bulk of the products in a clearance book didn't sell for some reason, so if that's all your customers see, they'll quickly discard the catalog.**

**It's a good idea to buy best-sellers specifically for a sale book or increase initial quantities so that it's likely you'll have some excess to liquidate in a sale effort. "You need to do P&L for a sale book," adds George J. Mollo Jr., principal of Nanuet, NY-based G.J. Mollo Associates, "because you want to be sure that you're still making**

money” selling the goods at a discount with the printing and mailing expenses factored in.

You may even be able to make lemonade out of your product lemons. Years ago, when Mollo was with apparel marketer J. Crew, “we had excess fabric left over. We went to a manufacturer and had them cut fabric into basic-style button-down shirts,” creating an exclusive item for the sale books and outlets. The trick was sticking with a basic cut available in standard small, medium, and large sizes, Mollo says. “We didn’t want to get into fitted sizes, which could end up as returns and create overstocks in the end.”

— MD

[Want to use this article? Click here for options!](#) 

© 2007 Penton Media, Inc.

**Find this article at:**

[http://www.multichannelmerchant.com/catalogage/mag/marketing\\_clearing\\_shelves](http://www.multichannelmerchant.com/catalogage/mag/marketing_clearing_shelves)

Check the box to include the list of links referenced in the article.

© 2007 Penton Media, Inc. All rights reserved.