Optimized markdown pricing at Ernsting's family

The fashion retailer uses artificial intelligence to boost sales and increase margins

Ernsting's family
Von fröhlichen Familien empfohlen.

BlueYonder
a **jda**. company

Ernsting's family uses artificial intelligence to manage its short collection cycle in its stores

Ernsting's family implemented Blue Yonder Price Optimization (now JDA Luminate Market Price) within a five-month test phase. The official roll-out for the entire Topolino assortment – one of the company's key offerings – will start in May 2018, across all 1,800 stores in Germany and Austria as well as all sales channels.

As part of the digital transformation process at Ernsting's family, the fashion retailer considered several ways to optimize its business within various specialist areas. This led Ernsting's family to launch a pilot program to optimize its markdown management in its Merchandise Planning & Allocation division with Blue Yonder. AI-based Blue Yonder Price Optimization was implemented.

The goal of the five-month pilot project with Blue Yonder was to sell selected items within a specified time period. Using the AI-based solution, Ernsting's family experienced a significant increase in sales volume and revenue, as well as retail margin for the selected product ranges.

"With Blue Yonder, we've found a partner that enables us to implement our digital strategy for pricing: Our margins on selected items have already increased within our five-month test. As a result, we decided to enter into a long-term partnership with Blue Yonder."

Horst Beeck
Chief Financial Officer of the Ernsting's family corporate group

About Ernsting's family

With more than 1,800 stores, an award-winning online presence and
around 12,000 employees, Ernsting's family is one of the largest cross-
channel retailers in the German fashion market. In the 2016/2017 business
year, the company based in Coesfeld-Lette (Westphalia) achieved
revenue of €1.120 billion. Ernsting's family offers fashion and accessories
for the entire family with a focus on women's and children's clothing.
It values articles that offer great quality at affordable prices. Ernsting's
family is establishing itself as a modern company with social, societal
and ecological responsibility initiatives that take the company in new
directions. Each year, more shops open across Germany and Austria.

Project overview

Country

Germany

Branch

Brick & mortar and online fashion retail

Challenges

Extremely short collection cycles and therefore high pressure to sell items quickly

Goals

- Optimize markdown management
- Sell new collections off within a determined timeframe
- Increase margins

Blue Yonder Solution

Price Optimization
Blue Yonder Price Optimization is now JDA Luminate Market Price. Learn more at jda.com/luminate.

Results (after the test phase)

Over
90 %

of an item sold within a defined period of time

Increase in sales and margins

Markdown pricing as a key strategic topic

In fashion retail, market demands have undergone massive changes in recent years as a result of online stores and digitization. The classic seasonal cycles of winter and summer sales at the end of the season have given way to faster trends and shorter-lived collection cycles.

This challenge is very familiar to Ernsting's family. The company's stores across Germany and Austria stock various product ranges (women's outerwear, women's underwear, children's fashions, accessories, toys, decorative items, etc.) and in a five digit range of individual articles of clothing. A consistent sales level is important for the retailer as the stores are supplied with new stock from changing monthly collections every two days.

This means Ernsting's family's push share is very high and that the products in the stores, which average 160 square meters, have to happen as quickly as possible to make room for the new items. As a result, there are high demands on the merchandise planning and pricing departments. For this reason, markdown management is a key element for the company that allows it to constantly sell items to secure room for the newly delivered items.

Price reductions stimulate the product life cycle

Price reductions enable retailers to control the product life cycle at every phase. For example, if customers are not paying the black price of a product at a high number of stores, the company has to act fast to offer the item at a reduced price. If item sales continue to remain flat, the retailer has to reduce the price even further until the article has been cleared from the shelves.

Goals of the Blue Yonder pilot project

In order to optimize the markdown management, which plays a key role in Ernsting's family's success, the retailer initiated a pilot project with Blue Yonder to shorten the product life cycle in two test ranges (women's assortment, Gina Benotti, and children's assortment, Topolino). The objective was to reach a 90% sales rates for the monthly collections within a defined period of time.

The five-month pilot project

For the test phase, 50 brick & mortar stores in Germany were selected. During the test phase, the Blue Yonder algorithm set the price for certain articles in these stores. The test stores were compared to 50 control stores to best compare the results.

In a direct comparison against 50 control stores, the stores that implemented Blue Yonder Price Optimization saw faster sales, therefore making more room for new products.

The Blue Yonder solution led to a significant increase in sales levels and margins while considering individual store stock levels and the cost of price changes in its pricing solution. To do so, Blue Yonder analyzed extensive amounts of data on a daily basis at the individual store and article level, as well as inventory and order data to deliver its automated pricing decisions. For example, the solution detected whether certain colors or sizes of a single item were better selling than others. During the test phase, price reductions were made more frequently earlier in the product life cycle, but the price reductions were made in smaller increments.

Within the test phase, Blue Yonder was able to deliver the desired results. 90% of the selected items were sold within a defined period of time. Additionally, there was a significant increase in gross margin, which convinced Ernsting's family to apply Blue Yonder Price Optimization across its entire product range in all stores across Germany and Austria as well as its online shop starting in May 2018.
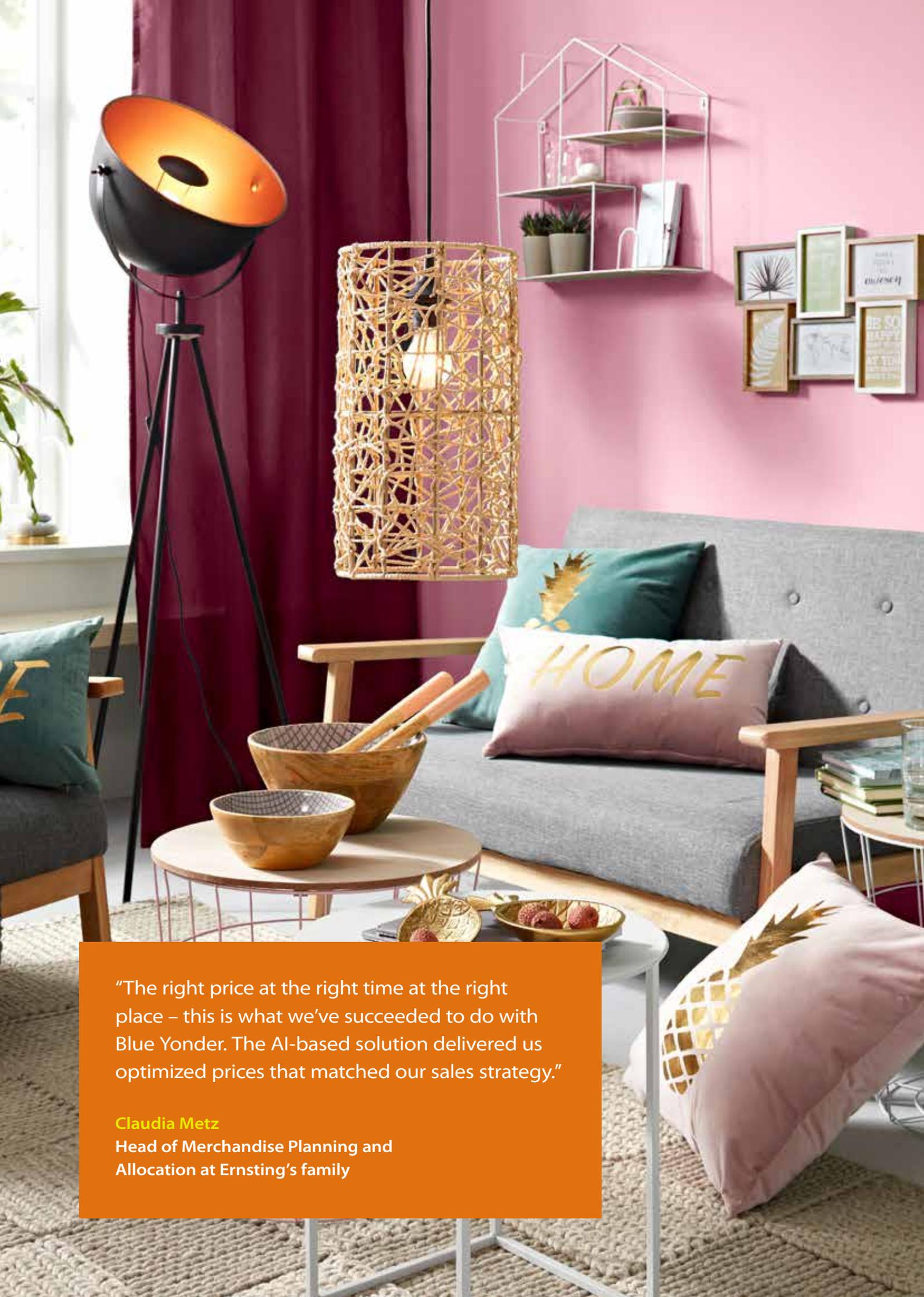
"The right price at the right time at the right place – this is what we've succeeded to do with Blue Yonder. The AI-based solution delivered us optimized prices that matched our sales strategy."

Claudia Metz
Head of Merchandise Planning and
Allocation at Ernsting's family

Roll-out in all stores and online

Starting in May 2018, Blue Yonder Price Optimization will be applied to all 1,800 stores in Germany and Austria as well as online, starting with the key collection Topolino and then all women's outerwear. Other assortment areas will follow.

Impact and outlook

The results of Blue Yonder Price Optimization will have an effect on quantitative stock planning and development in the future. Alternative reductions and faster article sales contribute to an increase in revenues, which will also impact the future order volumes that Ernsting's family plan and control.

Change management

It's impossible to avoid employee skepticism and concerns when a new technology, especially AI, is implemented in the workplace. At Ernsting's family, the majority of the staff involved in markdown management were part of the Blue Yonder pilot project from its initiation. As a result of the friendly teamwork within the project, those concerns were quickly allayed. Employees soon saw that using AI created new opportunities while realising that Blue Yonder's solution could provide figures and insights at a much deeper level than was previously possible. Ernsting's family plans to continue supporting its employees with targeted change management as the markdown process continues to be realigned.

About Blue Yonder

Blue Yonder, a JDA company, is a leading provider of artificial intelligence (AI) and machine learning (ML) solutions that enable retailers, consumer products and other companies to intelligently transform their operations and make more profitable, automated business decisions that deliver higher profits and optimized customer experiences.

With AI/ML learnings embedded into their core supply chain and merchandising processes, companies can respond quicker to dynamic market conditions and customer preferences, resulting in increased revenues and margins.

Developed by one of the largest teams of PhD-level data scientists dedicated to retail and the supply chain, Blue Yonder's AI/ML solutions deliver more than 600 million intelligent, automated decisions a day.

Blue Yonder was founded in 2008 in Karlsruhe, Germany, by former CERN scientist Professor Michael Feindt and acquired by JDA Software in 2018. The company has received numerous awards, including the Experton Big Data Leader Award 2016, the BT Retail Week Technology Award, the IGD Award 2017 for Supply Chain Innovation.

Blue Yonder provides its solutions through Microsoft Azure and was named one of Microsoft's retail partners of the year in 2018.

Blue Yonder
Best decisions, delivered daily

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