

A photograph of a clothing store interior, showing racks of clothes and a display table. The image is faded and serves as a background for the text.

Gordmans Case Study

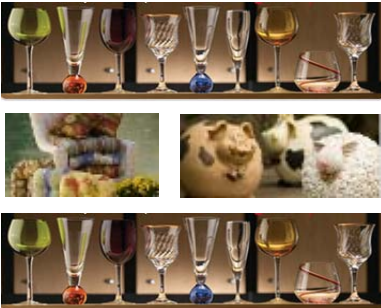
Real-time markdown technology results in 7% gross margin improvements

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Gordmans

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Company Profile

Gordmans features a wide range of merchandise including apparel, accessories, footwear, home fashions, gifts, designer fragrances, fashion jewelry, bedding and bath, accent furniture, and toys. Headquartered in Omaha, Nebraska, the privately-held company operates 65 off-price department stores throughout the Midwest with 4,000 associates and annual revenues in excess of \$400 million.

Over the past four years, Gordmans has aggressively expanded opening 24 stores and posting year-over-year average sales growth of 10%. In turn, that double-digit growth generated expansion of the existing technology infrastructure including an updated distribution center management system, new POS hardware and software, a state-of-the-art information support exception query and drill-down tool, and storage area network and blade server hardware with virtual server support.

Business Situation

With the new infrastructure in place, Gordmans executives turned their focus to updating back-office applications. Markdown optimization software was tagged as the next step in streamlining business processes.

Gordmans "...faced unique challenges with the merchandise mix due to a broad assortment of softlines apparel and hardlines home décor," said Michael James, Chief Financial Officer, and the traditional method of national level markdown pricing wasn't providing the necessary competitive pricing edge.

In early 2006, a formal review of markdown optimization solutions was launched and included the following stipulations:

- Pricing scenarios had to maintain consistent sell-throughs by store;
- Markdown processes were to be streamlined;
- Process efficiency and methodology required definition.

By year-end, Gordmans partnered with Applied Intelligence Solutions (AIS) to install best-of-breed markdown optimization technology.

Technical Situation

Standard markdown procedure with the existing system meant managing multiple spreadsheets and legacy "green screen" applications across multiple locations. Pricing decisions were based solely on historical sales data shared via paper reports. Finally, unclear metric parameters made it difficult to select optimal and

timely price points or define the most efficient use of markdown budget dollars.

Solution

After twelve months of intense product review and on-site presentations from three final software vendors, the management team and merchandising group selected Applied Intelligence Solutions (AIS) MarkdownXpert™ as the technology of choice. Selection was based on the following criteria:

- AIS provides focus to a company of Gordmans' size;
- AIS provides flexible grouping and filtering of stores, regions and other attributes;
- AIS forecast techniques work at the store / SKU level;
- AIS optimizes in real-time so users can make changes and re-optimize on the fly; and
- AIS' streamlined user interface delivers faster reporting and decision making capabilities.

The project kicked off with AIS professional services and the Gordmans' implementation group defining optimization targets based on corporate business goals. Based on those guidelines, the AIS analytic team configured MarkdownXpert to recommend optimal clearance price and timing strategies while tuning the solution to optimize multiple targets such as turnover goals for disparate merchandise, opportunity cost, and inventory turnover.

For the next 90 days, MarkdownXpert provided recommendations for all price reduction decisions and generated weekly views of item performance alongside forecasts based on data from the item and store level. Weekly / monthly markdown budget usage reports identified (a) SKUs requiring urgent action (b) optimum price points and timing, and (c) recommendations of which stores required price reductions versus those that didn't. Finally, the 'real-time' optimization engine recommended pricing scenarios fully supporting existing business constraints.

Data gathered over the first three months was then used to further tune the engines. Key performance indicators were refined to:

- Maximize actionable and measurable performance,
- Drive comparable store sales increases across all divisions to maximize performance by location;
- Reduce the time spent reviewing prospective markdown opportunities;
- Establish a stream-lined markdown process;
- Increase consistent decision-making throughout the planning organization;
- Enhance markdown methodology and execution productivity and;



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Gordmans

After twelve months of intense product review Gordmans chose MarkdownXpert.

- Increase the sales margin while maintaining residual inventory margins.

Benefits

Optimization at the store / item level combined with precise recommendations in the timing and depth of markdowns presented Gordmans an unprecedented capability to take every store’s unique selling and traffic pattern into account (See Table: Analysis of Store Groups by Sales Patterns).

Analysis of Store Groups by Sales Patterns – Slow, Normal, Fast	
Stores with SLOW sales pattern	<ul style="list-style-type: none"> • Deeper markdowns provide faster sales and inventory turn
Stores with NORMAL sales pattern	<ul style="list-style-type: none"> • Balanced markdowns provide sales and margin improvement
Stores with FAST sales pattern	<ul style="list-style-type: none"> • Shallower markdowns provide higher margins maintaining sales rate

SOURCE: *Markdown Optimization Implementation Overview, March, 2008*

Data revealed that a ‘one price fits all’ approach typically used in national pricing didn’t fit most stores. Instead, different selling patterns per store required different markdown levels at different times. Stores with

slower sales patterns required a completely different markdown approach than stores rapidly moving inventory.

“We verified significant increases in gross margin by processing data typically not taken into consideration,” said Pavel Zelinsky, Chief Technology Officer, AIS. “MarkdownXpert incontrovertibly demonstrated an unparalleled capacity for processing massive amounts of data to get the most precise forecasts and recommendations.” In just 90 days.

About Applied Intelligence Solutions

Applied Intelligence Solutions, LLC (AIS) provides intelligent software that replicates expert human decisions to automate and improve decision quality across the retail organization. With three decades of expertise in forecasting, scalable algorithm development, pattern recognition, neural networks and other artificial intelligence, our technology enables customers to boost revenue, minimize markdowns and improve profitability. Headquarters are in Westminster, Colorado with research and development in Moscow, Russia. Visit us online: www.aisllc.com

About Gordmans

Gordmans is an exciting, fun-to-shop store that offers savings of up to 60% off department and specialty store prices. Headquartered in Omaha, Nebraska, Gordmans operates 65 retail stores in 16 states featuring a broad selection of name brand clothes for all ages, accessories, footwear, gifts, fragrances, fashion jewelry, accent furniture and home décor at big savings everyday.

