

Shoppers Face Higher Back-to-School Prices, Lower Quality

Companies: AEO, ANF, ARO, BKE, CRI, DKS, EXPR, GPS, JCP, KSS, M, PSUN, TGT, VFC

August 4, 2011

Research Question:

What are back-to-school retail pricing trends, and how are these affecting consumer demand?

Summary of Findings

- Retailers' back-to-school prices are as much as 20% higher year to year. Those reporting steady pricing are compensating by using lower-quality materials and blends, including polyester.
- Current supply chain issues largely stem from higher shipping costs. One buyer reported a 10% shipping cost increase in the last three months.
- Material shortages are not a significant issue for our supply chain and clothing manufacturer sources, except in high-end wool.
- Denim sales are stable or up year to year despite higher prices.
- [The Buckle Inc.](#) (BKE) and [Abercrombie & Fitch Co.](#) (ANF) may be able to sustain higher denim prices and benefit in the future from lower cotton prices. [J.C. Penney Co. Inc.](#) (JCP) and [Kohl's Corp.](#) (KSS) have been weak and may need to lower prices. Meanwhile, [The Gap Inc.](#) (GPS) is struggling.
- Four of five customers said back-to-school prices are higher year to year. Still, three of the five expect to spend more this season.
- U.S. buyers sourcing from China face higher international shipping costs as well as China's own increases in demand, production costs and labor costs. Blueshift's [Aug. Crocs report](#) revealed manufacturers moving operations to South America and Mexico.)

Silo Summaries

1) SUPPLY CHAIN

Both suppliers said **prices have increased by as much as 20%**, particularly for the latest styles, but reported sluggish consumer demand. **Neither source had observed material shortages.** The Gap and its brands are struggling, but Buckle and Abercrombie & Fitch still have a cache that could help sustain their denim prices.

2) CLOTHING MANUFACTURERS

A chain store supplier's sales have decreased as much as 35% year to year because of higher material costs and international shipping charges. Our second source, a high-end manufacturer, said sales are up 5% quarter to quarter despite higher prices to customers. One manufacturer has not experienced any material shortages while the other reported minor shortages of wool.

3) RETAIL STORE MANAGERS

Three of four stores reported higher year-to-year prices on jeans and T-shirts. All four stores said demand is steady or higher compared with the same period last year. Although some stores like Pacific Sunwear have changed their fabrics and kept prices stable, others like the Gap have raised prices but not compromised the merchandise quality. Two sources said more schools are switching to uniforms.

4) BUYERS

One of these two sources said sales have declined 20% year to year and that prices increased 2% in the second quarter. This source's employer creates clothing largely composed of cotton. **Shipping costs have risen 10% in the past three months. Our second buyer's sales exceeded second-quarter expectations.** This source's employer did not raise prices in the second quarter but noted slightly higher prices for shoes.

5) CUSTOMERS

Four of five sources have observed higher prices on back-to-school clothing year to year, from socks to jeans to dresses. All five reported using discount-driven shopping habits. Three customers plan to spend more this year than last. One expects to spend the same amount while one had no comment.

6) INDUSTRY SPECIALISTS

Both sources said back-to-school prices have increased year to year. Parents will be more conservative in their shopping but still will spend more than during last year's back-to-school season. One source said cotton and silk shortages are making synthetic fabrics more prevalent. **Retailers are making up for higher material prices by offering more mediocre products.**

	Prices YY	Consumers Spending YY	Material Supply Issues
Supply Chain	↑	↓	↓
Clothing Manufacturers	↑	N/A	→
Retail Store Managers	↑	↑	N/A
Buyers	↑	N/A	→
Customers	↑	↑	N/A
Industry Specialists	↑	↑	→

Back-to-School Retail Report

Background

Twenty of 22 sources for Blueshift's [May 26 retail pricing report](#) found higher retail prices, and a supplier to a major U.S. retail chain predicted that the back-to-school season would bring additional price hikes, as much as \$5 to \$8 per garment, because of higher costs for material, gas and Chinese labor. Higher cotton pricing also is expected to affect back-to-school merchandise. According to one industry specialist, summer clothing prices correspond to cotton purchased at \$1 to \$1.10 a pound, while back-to-school merchandise will reflect a significant increase in cotton prices, at roughly \$1.60 to \$1.80 a pound. Still, back-to-school shopping is expected to increase year to year: The [International Council of Shopping Centers](#) has predicted that back-to-school sales will rise 3% to about \$39 billion, while [Customer Growth Partners](#) forecast a 6.2% increase in back-to-school sales year to year.

CURRENT RESEARCH

In this next study, Blueshift assessed prices at the consumer level, consumers' and retailers' reactions to this year's back-to-school prices, and potential shortages in the supply chain. Blueshift employed its pattern mining approach to establish and interview sources in seven independent silos:

- 1) Supply chain (2)
- 2) Clothing manufacturers (2)
- 3) Retail store managers (4)
- 4) Department store buyers (2)
- 5) Customers (5)
- 6) Industry specialists (2)
- 7) Secondary sources (3)

Blueshift interviewed 17 primary sources, including six repeat sources, and included three of the most relevant secondary sources focused on a Deloitte survey on back-to-school shopping habits, rising prices reported by a Target Corp. (TGT) manager, and a blog post discussing many large corporations' locked-in cotton prices at high rates.

Silos

1) SUPPLY CHAIN

Both suppliers said prices have increased by as much as 20%, particularly for the latest styles, but reported sluggish consumer demand. Neither source had observed material shortages. The Gap and its brands are struggling, but Buckle and Abercrombie & Fitch still have a cache that could help sustain their denim prices. J.C. Penney and Kohl's are weak and may have to lower prices for certain garments. V.F. Corp.'s (VFC) luxury denim brand [7 For All Man Kind](#) was viewed as losing market share by one source but reportedly increased its orders in the past three months with the second source.

➤ Senior account manager, denim textile supplier to a leading brand manufacturer; repeat source

Retailers are in a highly competitive environment and under pressure to hold or lower prices for back-to-school despite the high first-quarter price they paid for fabric. To compensate, higher prices are being attached to all-new styles and merchandise promoted as improved. Gap and its Old Navy have been struggling, but Buckle and Abercrombie & Fitch still have a cache that could help sustain denim prices. J.C. Penney and Kohl's may have to lower certain back-to-school garment prices. Consumer demand is sluggish, and spending is tight. Still, the back-to-school picture is expected to sharpen in late August. The effects of cotton's price escalations between the fourth quarter of 2010 and the first quarter of this year will not hit consumers until spring 2012 because retailers are uneasy about the current back-to-school shopping trend. Fabric suppliers now are working orders for spring and battling with the retaliatory mindset of retailers. Supplier fabric prices have dropped since January, but still are 30% higher than a year ago, resulting in tense negotiations. This source's orders from

The big impact for [consumer] prices will be in the spring [2012], not in the fall [2011] because cotton has gone down.

Senior Account Manager
Denim Textile Supplier

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7 For All Mankind have increased in the past three months.

- “Retailers for fall have either decided to put the increase into the garments, but some raised the prices on new items by about 20%. The Gap didn’t raise prices, and that’s why they got nailed [by investors]. Now Abercrombie and all the others are under pressure to bring prices down. That means the cost of the garments at retail for spring 2012 will be a lot.”
- “The Gap wants to remain cheap, and they may even go down in price at retail. Gap hopes to do a lot of promotions and just try to bring in their jeans at the magic number of \$29.99 a pair. Old Navy has drastically lowered its price. Gap numbers have not been good for six months straight. Banana Republic is doing the best of that group, and they have only had two good months in a row. It’s different for Abercrombie and Buckle, because they still have the ‘it’ factor. J.C. Penney and Kohl’s will try to lower their prices. They can’t bring the prices down too much for fall, however, because they paid such a high price for the fabric. The big impact for [consumer] prices will be in the spring [2012], not in the fall [2011] because cotton has gone down.”
- “There are no shortages and no shortage of cotton. ... Tons of yarn suppliers are stuck with yarn in the warehouses in China and Asia. ... Right now there is no shortage of cotton and fabric, and there should be because it was not a good [crop] year. There may be a shortage in the U.S., but no one cares right now because there is no demand and sales are sluggish.”
- “Consumers are not rushing into the stores to buy stuff. Orders are slow, and we are not shipping as well as we did this time last year. We are trying to sell fabric at higher prices in a year when the economy has still not come back.”
- “I am told from our people at Gap and [American Eagle \[Outfitters/AEO\]](#) that sales are sluggish.”
- “I went to the Gap flagship store [in San Francisco] this weekend, and it was jammed but no one was leaving with bags. ... In New York, all I hear is that sales are not good this summer. Typically, July is a bad month because it is too hot, especially this year.”
- “For back-to-school, we didn’t change or lower our prices to customers. They were the same as we quoted in February. But the prices were up over last season by 50% because we paid for the material in 2010, for the fall of 2011. The price of cotton last year jumped from 80¢/lb to \$2.19 /lb. That’s why our prices doubled.”
- “We will drop our prices to customers [on current orders/shipments], but in talking to American Eagle and The Gap they still want their cost to be much further down. So there is a battle and a backlash against suppliers. [Retailers are] looking for cheap material now for cotton and twill and denim. They are looking for it in Bangladesh and Cambodia and parts of India. But remember, the orders and shipments in October and November of 2011 will be for spring lines. They are pushing because they want cotton at the same price it was a year ago, when it was 80¢/lb, even though cotton right now is at \$1.05/lb [supplier purchase cost]. So we are up 30% to customers but still down 20% from the February prices they paid. It’s confusing and nothing is set in stone. [Levi \[Strauss & Co.\]](#) made a deal with us for a price through the end of the year, but now all of the agreements have been reopened for negotiation. It’s not like we have a contract.”
- “[7 for All Mankind is] the only company that has gone up in orders in the last three months, but what I sell to them is not immediately in the stores. But I know that people get tired of brands and often want to try something else. Abercrombie has come back a little.”

I am told from our people at Gap and American Eagle that sales are sluggish.

Senior Account Manager
Denim Textile Supplier

The orders and shipments in October and November of 2011 will be for spring lines. They are pushing because they want cotton at the same price it was a year ago.

Senior Account Manager
Denim Textile Supplier

➤ **Owner, fabric buyer/supplier and private-label manufacturer to brands and retailers; repeat source**

Prices at this stage of the back-to-school season have been flat year to year, but department stores are expected to raise prices in late August because of rising expenses from China. Consumer spending has been sluggish and likely will be tight during the back-to-school season. This source has not observed any material shortages. Tension continues to build between retailers and manufacturers as they battle over who should pay margin differentials. Suppliers also are under pressure because retailers have delayed orders, stretching the supplier lead time. Denim jeans remain popular enough to

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keep prices up. Sportswear sales are down. This source reported hearing that sales of 7 For All Mankind have declined 10% to 15% since the beginning of 2011.

- “We will see some price increases in department stores because of events in China, but we will not see them until late August. Right now everyone is holding their breath to see how consumers will swallow prices overall.”
- “Consumer spending is flat in general. It may be up in places like Dallas, but other areas have not rebounded as quickly. People’s purse strings are still pretty tight. It is always quiet in July, but not this quiet. No one is shopping in July. I do hear from customers that more people may be taking vacations this year than last so maybe they are not back yet. Fortunately, inventory is more in check this summer, and sales have helped department and chain stores bleed off inventory to make back-to-school leaner.”
- “The pullback in cotton prices has not translated into the market yet. You would assume prices would come for down for spring, but I think from now to the end of the year they will remain stable.”
- “Our orders are up in the last few months, but that is because everyone has been going short and ordering less, more frequently. We still have a lot of holiday orders out, and people are waiting longer and longer. We usually put holiday orders to bed in May and June, but this year it won’t be until August. Even the department stores are letting their paper go later and later. They keep waiting, and I need more and more lead time.”
- “The manufacturers’ business is based on department and chain store sales, so they are getting squeezed. The manufacturers are playing the subsidy game when the stores come in with their margin requests. If they can’t sell at margin, they want the manufacturers to make up the difference. I see retailers having more and more trouble getting the manufacturers to pay the margin, so they may accept a lower volume of sales to maintain the better margin. They are not changing the margin, but they are not selling merchandise at a lower price so the margins aren’t down.”
- “We have not seen any [material] shortages yet. People were skittish about a cotton shortage six months ago, and that supported the price increase in the fall.”
- “Events in China have affected cotton prices, but so too have health benefit and minimum wage battles, which have increased production costs. Plus, there is a growing retail environment in China. I have heard that new retail stores are cropping up all over the place, so now you have the U.S. retailers competing with the Chinese retailers for material and you have the Chinese taking care of their own.”
- “Polyester is still big and we see a lot more polyester in the fabric in terms of its percentage per unit.”
- “In luxury jeans, [Citizens of Humanity](#) has been stable or up about 1% to 2%. [Miss Me](#) and [Silver Jeans](#) are doing well. But 7 for all Mankind is down. Perhaps the brand has gotten stale. I have heard 7 is down by about 10% to 15% [in sales] since the beginning of the year. Citizen seems to be gaining some of that market share. In the Midwest, embellishments are still very important and doing well.”
- “I have heard there has been a 25% to 30% drop in sales for sportswear, especially women’s sportswear. ... Denim [jeans] is still a status-oriented product, so people are still spending a lot more money on them. Sales are down on shirts and tees.”

Now you have the U.S. retailers competing with the Chinese retailers for material and you have the Chinese taking care of their own.

Owner, Fabric Buyer/Supplier & Private-label Manufacturer

2) CLOTHING MANUFACTURERS

A chain store supplier’s sales have decreased as much as 35% year to year because of higher material costs and international shipping charges. Our second source, a high-end manufacturer, said sales are up 5% quarter to quarter despite higher prices to customers. One manufacturer has not experienced any material shortages while the other reported minor shortages of wool.

➤ U.S. manufacturer that produces for customers from start-ups to retail chains

A 50% increase in cotton costs pushed this source’s sales 30% to 35% year to year. The source uses a polyester cotton blend that has increased 40¢ per yard since the beginning of the year. International shipping costs also have risen. The manufacturer has had to increase the cost of school uniforms because of suppliers increasing their costs 40% to 50% from last year. They have traditionally done well with back-to-school business, but now their uniform business is in jeopardy. Uniform orders are slowing, and the manufacturer lacks the variety of sizes and colors from prior years. Other

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than for uniforms, the manufacturers is maintaining its prices to wholesalers for fear of losing additional business. The source has not observed any fabric shortages in the supply chain.

- “Business is down this year. Compared to last year at this time, we are down 30% to 35%.”
- “The prices of cotton are a little bit better now. But two to three months ago cotton was up 50% up from last year. Fabrics that have cotton are still up from this time last year. It is hurting us.”
- “The polyester cotton blend we use most often is \$1.70 per yard. Early this year, it was \$1.30 per yard. That is a significant increase.”
- “The increases in fabric prices are definitely hurting our profits. They are raising them in China, Burma, India—all the places we import from.”
- “Everything is up. It costs them more to ship it over here plus material costs are higher.”
- “We have to eat the increases. We cannot raise the prices to our wholesalers. We have not raised them this year so far with the exception of uniforms, which was recent.”
- “The economy is too bad and nobody wants to pay more. We don’t want to lose customers, so we are holding prices for now.”
- “We have a line of school uniforms that is in jeopardy due to the increase in fabric prices. It is troublesome. Our supplier has them in, but the prices are up so much from last year. Our supplier in Bangladesh has raised their price on the uniforms by 40% to 50% since last year.”
- “Back-to-school has traditionally been good for us, and now I can’t sell the uniform order due to the price increases.”
- “In prior years, I used to buy a uniform for \$2.70. Now, they are asking \$4 for us to buy it. We have to pass it on. We have to raise the price to our wholesalers, and now they are not buying them.”
- “The uniform is not something we make. We have to import them so we have no control over the cost. It is not a good situation at all for our business.”
- “We are short on uniforms. I don’t have all the sizes or colors that we have had in previous years. This is because the price of cotton is so high.”
- “We have not seen much in the way of material shortages. If we can’t find something from the importers, we can find it in Los Angeles. LA is a huge warehouse for closeout fabrics. If we can’t find it in line, we generally find it there.”
- “We supply to chains stores, discount chain stores and specialty stores. We also do some private label for other companies.”

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U.S. Clothing Manufacturer

► U.S. designer and manufacturer of custom suits; repeat source

A 2% to 4% increase in second-quarter wool prices affected this source’s suit prices, so the manufacturer raised unit prices \$50 to \$75 in June. Still, sales have increased, beating the source’s expectations by 5%. Delivery times for wool have been delayed slightly, and the source reported a slight shortage in wool availability.

- “Wool prices have gone up in the last quarter. I would say they are up 2% to 4% in the last few months.”
- “We raised [prices] in June.”
- “The increase in our prices is not significant enough make a difference in our sales. Our suits are a couple thousand dollars, so an increase of \$50 to \$75 will not be really noticed by our customers.”
- “Our wholesalers have not reacted negatively to our small price increase. I think they have been seeing it everywhere. I think they were kind of expecting it.”
- “We are actually doing well. We are a little up from where we’d thought we would be. I would guess we are up 5% from expectations.”
- “The next three months will be about the same for us but should be picking up for fourth quarter.”
- “Compared to last year in terms of material costs, wool is the only thing that has gone up slightly in price.”
- “We have seen a little shortage of some of the wool we use ... just slightly. It isn’t one specific wool that comes up short ... a slight shortage across the board. They might be out of it for little while. We just might have to wait a little bit longer sometimes to get what we ordered.”

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U.S. Designer & Manufacturer Custom Suits

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3) RETAIL STORE MANAGERS

Three of four stores reported higher year-to-year prices on jeans and T-shirts. All four stores said demand is steady or higher compared with the same period last year. Although some stores like [Pacific Sunwear of California Inc. \(PSUN\)](#) have changed their fabrics and kept prices stable, others like the Gap have raised prices but not compromised the merchandise quality. Two sources said more schools are switching to uniforms. Three of four sources said consumers are spending the same as or more than the last back-to-school season while the fourth source had no comment.

➤ American Eagle store manager, Wilmington, NC

Jeans have become more expensive year to year but remain popular. Prices on other merchandise have stayed the same. Shoppers are purchasing more merchandise year to year. In-store ticket averages are expected to increase, and back-to-school shoppers will be spending more because more schools are requiring students to wear uniforms.

- “Prices have held stable over the past three months on most merchandise. We have marked down summer items.”
- “Jean prices have increased on some styles.”
- “Jeans are big right now, a major attraction now because of back-to-school.”
- “Our prices are the same as last year for the back-to-school season. All the polos and khakis stayed the same price.”
- “Shoppers are buying more in general compared to last year, I think the economy is in a way better place than a year ago.”
- “I think our store ticket averages will be higher. A lot more schools went to uniforms, so shoppers have to purchase those along with everyday clothing.”

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*Store Manager, American Eagle
Wilmington, NC*

Reporter Observations: Six shoppers and four staff members were in the store on a Monday at 4:30 p.m. Jeans, the main focus of the store’s marketing, were on sale, and new select styles were up to 25% off.

➤ Two associates at a [Aéropostale Inc. \(ARO\)](#) store in the Chicago area

The store’s sales are meeting expectations, driven by back-to-school sales of top-selling jeans and graphic tees. Jeans were 50% off, and inventory was low. One source said prices have been steady and that customer spending is the same as it was at the beginning of summer.

- “We are doing pretty well for back-to-school. We are where we thought we’d be. Our business is pretty steady.”
- “Jeans are on sale now, 50% off. They are usually \$44, so now they are \$22 a pair. We are selling a ton of jeans now. We are really low on stock since the sale is really good.”
- “As far as I can tell, prices are the same as a few months ago.”
- “People are spending about the same as they were at the beginning of the summer, maybe a little bit more.”
- “Jeans are our top seller.”
- “Our most popular jean style is skinny. We only have a few pairs left. We are really low on jeans now since they have been on sale.”
- “After jeans, our cotton graphic tees sell the most. We have lots of styles for guys and girls. Most of our tees have our name on them, but we do have some polo shirts too.”
- “Graphic tees are on sale now and selling well. They are two for \$19, which is a good sale.”

Reporter Observations: Four associates were working during our midday visit on a Sunday. The store was clean, organized and fresh looking. We witnessed one purchase—a woman purchasing two pairs of jeans for her teenage daughter. A pair of college-age women were browsing the store. A large sign outside the front door advertised the 50%-off jean sale. Tables of graphic tees and polos were in the center aisles of the store.

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► Pacific Sunwear store manager, Wilmington, NC

Prices have risen on T-shirts during the last two years but have not affected demand. Denim prices have remained stable year to year. Shoppers are buying more merchandise but spending the same or slightly more because of the low overall price points and the higher-priced Collection Edition line. This source said fabrics have shifted away from cotton to more tri-blends.

- “Our prices have lowered across the board this year, but we added a Collection Edition with a higher price point and that helps make up the difference in sales.”
- “Shoppers are buying more merchandise from us than a year ago. We have great sales and with the lower overall price points they can afford to.”
- “Prices on T-shirts have gone up for us over the last two years. ... The increased prices on T-shirts have not affected the demand for T-shirts.”
- “We have a house denim brand, and our prices have not changed since last year.”
- “Vendors are now using a tri-blend for T-shirts instead of 100% cotton.”

Vendors are now using a tri-blend for T-shirts instead of 100% cotton.

*Store Manager, Pacific Sunwear
Wilmington, NC*

Reporter Observations: Ten to 12 shoppers and four staff members were in the store on a Monday at 5 p.m. Fall merchandise was plentiful, with some still in boxes.

► Gap manager, Wilmington, NC

Some jeans are slightly more expensive than last year. This source said prices had to increase in order for the quality to stay the same, but that demand has not been affected. Customers have been buying less merchandise but at higher prices. She was not sure if shoppers will spend more or less for the remainder of the back-to-school season because of the new uniform requirement at more area schools. She also has noticed more clothing being made from blends.

- “Some jean styles are higher [in price] than last year, not drastically.”
- “Some companies have to cut quality to keep prices the same. We don’t do that.”
- “Demand has not been affected because it’s only a small change across the board. Shoppers have not noticed, and we have sales all the time.”
- “Less merchandise is being purchased, but it’s more at full price on specific items. Shoppers are being more careful about what they are buying.”
- “I’m mixed as to whether shoppers will spend more or the same because so many schools went to a uniform this year. They may buy the combination of the uniform and regular clothes or just the uniforms.”
- “More clothes are becoming blends of material.”

Some companies have to cut quality to keep prices the same. We don’t do that.

*Manager, Gap
Wilmington, NC*

Reporter Observations: The sale section for women was offering an additional 40% off of already marked-down merchandise. Five shoppers and three staff were in the store on a Friday at 3:30 p.m.

4) BUYERS

One of these two sources said sales have declined 20% year to year and that prices increased 2% in the second quarter. This source’s employer creates clothing largely composed of cotton. Shipping costs have risen 10% in the past three months. Our second buyer’s sales exceeded second-quarter expectations. This source’s employer did not raise prices in the second quarter but noted slightly higher prices for shoes. One source said supply chain issues stem from relying on imports rather than U.S. warehouses. The second source had no comments on supply chain issues.

► Buyer for a U.S. manufacturer of women’s and kids’ resort wear

Sales have fallen 20% year to year. The manufacturer raised wholesale prices nearly 20% in the second quarter because of the substantial increase in cotton prices. This source’s busiest time is January to June. International shipping costs rose 10% during the second quarter, primarily because of higher fuel costs.

- “We are down 20% this year as compared to this time last year.”

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- “Our primary market is resort wear. This is our slower time of year. September up to December is our slow time. We do pretty well at Christmas. January through June are our busiest times.”
- “Within the last three months, we were forced to raise prices about 20%. Our wholesalers were not terribly excited about it, but ... we had no choice. The market is what it is. We cannot afford to take the hit anymore.”
- “Cotton prices have risen steadily and fast for some time now. They have gone up 20% to 30% about five times in the last year in a half.”
- “The cost of cotton was going through the roof, so we had no choice but to raise our prices. It is beginning to come down in price now so end-of-year deliveries of cotton will be down.”
- “Linen is not as bad, but it has gone up 10% to 15% in the last quarter.
- “We use more cotton than linen so the fluctuations in cotton affect us much more.”
- “I feel our end customers are buying less merchandise than compared to three months ago. Everything is down.”
- “We have problems with the supply chain. These days, everything is imported. No one is stocking anything anymore. Everything is now done to order.”
- “There are hardly any U.S. warehouses left. Some carry inventory, but it is not as heavy as it used to be. ... We almost always have to import.”
- “Shipping has gone up in the last quarter, but it is not that bad. Shipping tends more to do with fuels than anything. I estimate shipping is up about 10% in the last three months.”

“Within the last three months, we were forced to raise prices about 20%. Our wholesalers were not terribly excited about it, but ... we had no choice. The market is what it is. We cannot afford to take the hit anymore.”

*Buyer
U.S. Women's & Kids' Clothing
Manufacturer*

➤ Buyer for an independent retailer of clothing and shoes in Illinois; repeat source

This retailer exceeded its second-quarter sales goals and did not raise prices during the last three months. It is focused on keeping inventory strong with basics and core pieces. Domestic shipping costs have not increased in the last quarter, but the source reported higher international freight charges. Small increases in wholesale shoe prices have not affected her purchases for the store.

- “We have not had to raise prices at all [for clothing] in the last three months. We exceeded our sales goals and beat out the same quarter last year. Our sales have not suffered at all. We have been able to focus on our inventory.”
- “Best sellers are the basic tees. ... Our designer denim has tapered off a bit but will pick up in September and October when the weather gets cooler. We do have a more affordable line of jeans that retails around \$50 that is doing pretty well, considering it's been pretty hot out.”
- “We are concentrating on keeping our best sellers in stock. We are chasing good inventory and dumping bad inventory.”
- “I have heard that vendors have raised their prices, but I have not seen it. I have heard people talked about it in the shoe world more so than in clothing. I have seen them go up a couple of bucks here and there, but nothing that makes me not want to buy it. For a pair, they are not going from \$20 to \$45. The price increase has been more gradual and more subtle but not enough to be detrimental to our business.”
- “I did notice that in the last quarter, they changed one of the rates with overseas freight.”
- “Our UPS shipping costs have not increased lately.”

5) CUSTOMERS

Four of five sources have observed higher prices on back-to-school clothing year to year, from socks to jeans to dresses. All five reported using discount-driven shopping habits. Three customers plan to spend more this year than last. One expects to spend the same amount while one had no comment.

➤ Back-to-school shopper, Wilmington, NC

This source reported seeing higher prices and said she has become more discount-driven in her shopping. She said her spending has been steady or slightly higher.

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- “Prices have increased on everything; I wouldn’t even consider buying anything at full price unless I really needed it right away.”
- “All the stores mark down or have a coupon at some point. That is when I shop.”
- “I don’t shop frivolously now. I’m buying less but spending the same if not a little bit more.”
- “I’ve started noticing a lot more stores offering great promotions and way more sales than last year.”
- “I use my rewards cards and the coupons at a lot of retailers.”

➤ Stay-at-home mom of three boys, ages 6, 6 and 3, Kettle River, MN

Despite back-to-school sales, this source’s spending for back-to-school clothes will be higher this year because of price hikes. [Carter’s Inc.](#) (CRI), Target and other stores already have increased clothing prices year to year.

- “I have bought fewer pairs [of jeans] this year.”
- “Carter’s, [The Bon-Ton Stores Inc.’s/BONT] [Younkers](#) and [Herberger’s](#), and Target have all increased prices.”
- “It becomes more difficult to buy big items like backpacks, but easier to buy stocks of pencils, folders, paper.”

➤ Back-to-school shopper, Wilmington, NC

Prices on uniforms have remained the same year to year. This source took advantage of summer discounting to buy clothes for year-round wear, and expects to pay higher prices but will buy fewer items this fall.

- “Uniform prices are the same as last year.”
- “I saw a lot of good sales this summer and bought us clothes we can wear all year.”
- “I’m still shopping as usual, more casual summer clothes cost me less than fall winter clothes so I can buy more for less.”
- “I expect to pay more going into fall/winter for clothes, so I have to buy less then, and try to keep my spending the same.”

➤ Back-to-school shopper with two boys, Wilmington, NC

This source has noticed slightly higher prices, especially on jeans, but still expects to spend the same amount as last year because of changing styles and her kids’ growth. She also said stores have been holding more promotions. She would not be surprised if she spends more this year.

- “Last year I spent about \$250 for both of them at back-to-school. ... I hope to keep it the same, but I won’t be surprised if it is more because everything is increasing in price.”
- “Jeans prices are crazy; they have increased a lot over the last three years.”
- “I am still buying the same number of jeans because they go in and out of style and because of the boys’ wear and tear on them.”
- “I want to get the most for my money, so sales and promotions are great ways for me to do that.”
- “I think we may get more for our money this year because of all of the promotions I have seen.”

➤ Chicago woman in her mid-30s shopping with her teenage daughter who likes [Express Inc.](#) (EXPR) and [Forever 21 Inc.](#)

Prices have increased during the last six months, so this source has continued to shop during sales. She plans to spend the same amount as last year’s back-to-school.

- “I definitely think prices have gone up the last six months by a little bit on everything I buy, clothes included. But I am still shopping. I am more choosy about what I am buying.”
- “The sale racks are a lot more picked over than they used to be. I think most people shop during the sales.”
- “The price of dresses has gone up—at least \$10, maybe \$15 since last year. ... I remember buying some last summer for around \$40/\$50 full price, and now most are at least \$60, sometimes \$80 to \$90.”
- “Back-to-school spending will be about the same this year. We try to pick up things she needs here and there when they are on sale so we don’t have to spend so much right before school starts.”
- “My daughter gets some stuff from [Macy’s \[Inc./M\]](#), but she likes Express and Forever 21, too. I think the quality of the clothes at Macy’s is a little better, but the prices are a little higher.”
- “I have used a 20% off coupon at Macy’s a few times to buy something full price. If I really love something and the saleswoman tell me it is

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*Back-to-school Shopper
Chicago, IL*

Back-to-School Retail Report

- selling fast, I will get it with the coupon. It is a last resort because 20% is not much of a deal.”
- “We are actually on our way to Express now. We got a coupon in the mail she wants to use. You get \$15 off a \$30 purchase. She wants to go look at their jeans.”

6) INDUSTRY SPECIALISTS

Both sources said back-to-school prices have increased year to year. Parents will be more conservative in their shopping but still will spend more than during last year’s back-to-school season. One source said cotton and silk shortages are making synthetic fabrics more prevalent. Retailers are making up for higher material prices by offering more mediocre products.

► Publisher of an online parenting magazine and resource guide; repeat source

Retail prices for back-to-school items have risen about 5% since last year, but retailers will not suffer because parents will spend money on their kids regardless. Synthetics are becoming more popular because of cotton and silk shortages. Smaller retailers will be hurt by higher material prices, but retailers overall are overcoming material prices by offering mediocre products.

- “Retail prices for back-to-school goods have risen in the past three months.”
- “Retail prices have risen by about 5% since last year.”
- “I do not think the increase in price has affected demand. The reality is that people always spend money on their kids.”
- “I think that the average spending will be about 5% higher [this year] than last year.”
- “Any retailer that is big enough to negotiate a favorable price vis-à-vis material prices will be in a strong position. Smaller retailers will feel the brunt of this burden [of higher material costs].”
- “Designers and retailers are reacting by buying less and using cheaper alternatives to produce their goods. The result? A mediocre product. This will drive consumers to buy on the periphery: They will either buy discount or luxury. There is no room for the middle.”
- “Without a doubt, the consumer bears the highest burden of higher prices.”
- “Cotton clothing is less prevalent because it is more expensive. Synthetics have come a long way, and I see them more and more.”
- “I have seen a shortage in natural fabrics such as cotton and silk.”
- “Any fabric that is ‘care-friendly’ is more in demand.”

Designers and retailers are reacting by buying less and using cheaper alternatives to produce their goods. The result? A mediocre product. This will drive consumers to buy on the periphery: They will either buy discount or luxury. There is no room for the middle.

Publisher, Online Parenting Magazine

► Business writer for a marketing publication; repeat source

Based on polls and surveys this source has read and researched, back-to-school prices have risen. Still, parents will spend as much as or more than last year, but will be conservative in their shopping.

- “All the recent polling data I have seen indicates that [back-to-school prices] have [risen], and more importantly, that consumers believe they have risen.”
- “The three biggest surveys I’ve seen [Deloitte, [NRF](#) and [Amex](#)] all indicate that parents say they will be very conservative, spending as much as or maybe a little more than last year, but will really be careful.”

Secondary Sources

A Deloitte survey that found that 64% of shoppers plan to buy more back-to-school items on sale than last year. Meanwhile, prices at the retail level have risen 10% to 15%, with one Target manager reporting small price increases because of higher cotton prices. Although cotton prices have decreased, major brands have locked in higher cotton prices.

Back-to-School Retail Report

► July 29 *Charlotte Observer* article

A Deloitte survey showed that 64% of shoppers plan to buy more items on sale this year than in previous back-to-school seasons with over 70% saying higher food and energy prices could affect their back-to-school budget.

<http://www.charlotteobserver.com/2011/07/29/2488459/retailers-amp-up-back-to-school.html>

- “New research from consulting firm Deloitte shows that 64 percent of shoppers plan to buy more items on sale this year than in previous back-to-school seasons. That’s down from 70 percent in 2010, but Mary Delk, a director in Deloitte’s retail practice, said it’s still a sign of post-recession change.”
- “Over 70 percent of consumers who responded to Deloitte’s survey said higher food and energy prices could affect their back-to-school budget, and 65 percent said ‘low prices’ are the most important factor in picking where they shop.”
- “The sales cycle is a hard habit to break, so even as the economy recovers, retailers will continue to drop prices for special seasons like back-to-school, she said.”

The sales cycle is a hard habit to break, so even as the economy recovers, retailers will continue to drop prices for special seasons like back-to-school.

Charlotte Observer Article

► July 19 *The State Journal* article

Many retailers’ prices for cotton-made products are looking to raise prices 10% to 15%. A Target manager reported small price increases and said the market would adjust by adding more blends to cotton.

<http://statejournal.com/story.cfm?func=viewstory&storyid=103607>

- “The cost of cotton began rising last summer, at the same time retailers were placing their back-to-school merchandise orders. That cost is now hitting store shelves, just in time for the back-to-school shopping season.”
- “Many retail and apparel makers across the country are looking to raise prices 10 to 15 percent for cotton-made products. That includes jeans and shirts, which are popular back-to-school clothing. But not all retailers are following suit.”
- “‘We’ve had small increases in some of our prices on them, there’s no question. They may go higher. Not with us. We’re going to hold the line because we’ve already programmed out. But you may see higher cotton prices for the next several months before they even off,’ Haynes [the manager of a Charleston Target] said of his store.”
- “Haynes says the market will adjust by adding more blends to cotton to cut down on cotton use.”

► July 17 *Manhattan Wardrobe Supply* blog post

Although cotton prices have dropped, many major corporations locked in prices at higher levels and now are trying to pass on price hikes. Projections for an improved harvest have China, Pakistan and India planning to suspend their export limitations, but U.S. cotton crops have suffered because of drought.

<http://www.wardrobesupplies.com/blog/?p=1317>

- “The price did, in fact, drop \$1.07 on July 7 landing at \$1.13.”
- “Corporations like Hanesbrands which manufactures a staggering 500 million tee shirts and one billion socks per year, ‘locked’ into prices between \$1.60–\$1.80 on the futures exchange because of inventory requirements so we are stuck with these prices until next year.”
- “Regardless of China experiencing a dramatic winter draught which delayed planting, they are projecting a substantial improvement in this year’s harvest. Pakistan, as well, is reporting a pronounced increase in growth this year. India, the last of the ‘big three,’ is planning to suspend their export limitations. The United States is having a bad year, however, as a result of draughts in Texas, our largest source of cotton.”
- “It was the surge in Chinese consumerism that drove the price up and a softening of Chinese shopping a major contributor to the dip.”
- “Hanes has already instituted price increases for the back-to-school inventory and it looks like they will add to that with the coming year. They are not alone. ... Retailers are trying to absorb some of these

The price did, in fact, drop \$1.07 on July 7 landing at \$1.13. ... Corporations like Hanesbrands which manufactures a staggering 500 million tee shirts and one billion socks per year, ‘locked’ into prices between \$1.60–\$1.80 on the futures exchange because of inventory requirements so we are stuck with these prices until next year.

Manhattan Wardrobe Supply Blog

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increases to assuage the concerns of wary consumers who are just now returning to the mall. Even if the consumer doesn't immediately feel the impact, the retailers tenuous profit margins will be impacted."

Next Steps

Blueshift Research will follow up on a supply chain source's comments on Gap underperforming its competitors. We also will investigate whether popularity for V.F. Corp.'s 7 For All Mankind is waning. Our next retail report will investigate which retailers are benefitting the most from the recent decreases in cotton prices and which retailers are able to hold higher prices implemented in the past year and turn those into higher profits.

Additional research by Cheryl Meyer, Carolyn Marshall, Tina Strasser and Erica Franklin

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