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## Apparel Retailers Check Out Prices

*As Production Costs Rise, Some Look for Ways to Offset Them; Children's Place Considers 'Very Selective' Increases*

By ELIZABETH HOLMES

Clothing retailers are struggling with the right pricing strategy heading into the crucial holiday selling season, as shoppers are increasingly resistant to paying full price at a time when production costs are rising.

Apparel companies have spent the past year trying to wean customers off discount habits formed during the recession. But the choppy economic recovery now is undoing their efforts, as shoppers are reverting to their frugal ways—a bad sign as the critical fourth quarter nears.



Bloomberg News

A customer looks at Gap's premium jeans at a store in New York City in July 2009. A Gap official called the current pricing landscape "erratic."

Making matters worse, retailers are facing a litany of supply-chain cost increases, including wages, cotton prices and freight costs. In response, some retailers warned they will need to start raising prices on some items in the second half. But the small size and the selectiveness of the proposed increases underline just how hard it will be for retailers to raise prices.

Glenn Murphy, CEO of [Gap Inc.](#), said the competitive environment was "still promotional, definitely still more aggressive than it was a number of years ago." Mr. Murphy added that

he was "disappointed" in the company's "inability to generate the sales that we had expected to generate in the second quarter."

Gap, the nation's largest apparel retailer by sales, also fell victim to problems with its product mix at its namesake Gap brand, which was the worst performing of the company's portfolio, with sales falling 3.4% to \$848 million.

The assortment lacked balance, Mr. Murphy said.

Mr. Murphy said he is pleased with the new push that includes redesigned black pants, similar to the denim relaunch a year ago. Even so, he had harsh words for the brand. "My patience is not indefinite," he said. "At the end of the day, we expect a lot more from that brand."

Overall, Gap reported a second-quarter profit of \$234 million, or 36 cents a share, for the period ended July 31. That's up 2.6% from \$228 million, or 33 cents a share, in the prior-year period. Total sales at Gap, which includes Banana Republic and Old Navy, rose 2.2% to \$3.32 billion.



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Associated Press

Children's Place is one of the retail chains expected to raise its prices.

**Jack Calhoun**, president of Gap's Banana Republic division, which posted a sales increase of 4.5% for the quarter, described the pricing landscape as "erratic."

**Aéropostale Inc.** co-CEO **Tom Johnson** said the "consumer is more price sensitive than ever and the retail environment is highly promotional. All retailers must face the realities of the current macroeconomic environment."

The teen retailer posted quarterly earnings of \$43.6 million, or 46 cents a share, up 13% from the year-ago period, as sales climbed 9.2% to \$494.7 million. But increased competition from its mall peers, in the form of deep discounts from historically higher-priced players, led to a slowdown in the business this summer.

"We were not pleased with our sales and margin performance in the latter half of the period," said co-CEO **Mindy Meads**. "We are clearly operating in a tougher and more competitive retail environment than earlier in the year."

While Gap said it has been able to use its size to keep costs stable on the sourcing side, Aéropostale attributed its long-term relationships with sourcing agents and factories.

But many retailers are facing rising supply chain expenses—and say they will have to try increasing prices they charge customers to compensate.

**Children's Place Retail Stores Inc.** is considering some price increases. The children's retailer said it plans "very selective price increases" on its spring 2011 merchandise because of higher cotton prices, freight costs and labor rates.

"We kind of combed through the assortment on an item-by-item basis," Chief Executive **Jane Elfers** said Thursday on a call with investors. The increases will be on higher-ticket fashion items, Ms. Elfers said, and not across the board.

For the quarter ended July 31, Children's Place said more customers were visiting stores and purchasing clothing, pushing up the number of transactions by 10%. But the transaction size declined 5%, in part due to lower average prices paid. The retailer's quarterly loss widened to \$8.2 million, or 30 cents a share, from a year-earlier loss of \$7.1 million, or 24 cents a share.

Sales rose 9.4%, to \$345.3 million. Gross margin fell 50 basis points to 32.9% because of higher markdowns.

**Buckle Inc.** also plans to raise prices in certain categories. The teen retailer said it hopes to justify those increases by adding more embellishment to the clothing. For example, men's shorts prices could rise in the "high-single digits," Chief Executive Dennis Nelson said. "We are trying to offset that with maybe belting them or adding other details to create more value in the shorts."

In the latest quarter, Buckle's profit tumbled 17% to \$20.7 million, as sales slipped 2.2% to \$188.6 million.

**Stage Stores Inc.**, which includes Bealls, Goody's and Palais Royal, saw its profit jump 14% to \$10.3 million, or 27 cents a share. Sales rose 1% to \$345 million.

The retailer said it expects costs to rise 4% to 6%. It hasn't decided how much, if at all, of that will be reflected in its retail prices.

"The market has kind of taken a wait-and-see approach to how much they can pass on, or we can pass on, to the consumer," Stage Stores CEO Andy Hall said Thursday. "I am not very optimistic that in today's environment the consumer is going to take a price increase."

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