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Price War for Teen USA

By [JOHN JANNARONE](#)

Teen stars can make life look effortless. Until the day it all comes crashing down.

That is the condition of [Aeropostale](#), the teen-focused apparel retailer that posted over 10 straight years of rising sales and managed to thrive straight through the recession. The company's gross margins rose about seven percentage points over the past five years, while pricier rivals [Abercrombie & Fitch](#) and [American Eagle Outfitters](#) saw theirs decline, says Brian Tunick of J.P. Morgan. But the winning streak may have ended recently, with the company acknowledging that aggressive discounting by competitors has put its market share at risk.

The trouble is that Aeropostale has no real option but to fight back with discounts of its own, likely meaning a prolonged price war has begun. The fight could be brutal because Abercrombie, with the highest gross margins in the group, has plenty of scope to cut prices at its Hollister stores that compete with Aeropostale.

The experience of other retail battles bodes poorly for Aeropostale. [Macy's](#) recently managed to take share from [J.C. Penney](#) by introducing more items designed to compete with its lower-end rival.

Of course, Aeropostale looks dirt cheap at eight times consensus earnings for the year ending January 2012. But with no sign of a truce in the price war anytime soon, investors should avoid buying into a value trap.

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