Caught between inflation and rising costs, fashion seeks to strike new balance

By Olivier Guyot – July 19, 2022

Fashion labels are caught in a vicious pincer hold. Hit by global supply chain disruption and huge logistics issues in the wake of the Covid-19 pandemic, in 2021 the apparel, accessories and footwear industry began to be affected by sharp cost increases too. A first challenge that called for ingenious solutions. But ever since Russia’s invasion of Ukraine, the industry is having to deal with rampant inflation too.

In the whole of Europe, inflation is a key concern for governments and consumers alike. Rising energy prices, triggered by the invasion of Ukraine and the sanctions imposed on Russia, are sapping the purchasing power of European consumers. And while inflation has been growing since November, the EU’s statistical office, Eurostat, reported that it hit a painful high in the month of June, when it stood at an 8.6% annual rate. Germany and the Baltic states, all highly dependent on Russian gas imports, have recorded extremely high rates. And the upward pressure isn’t limited to energy prices, since food products have also been affected.

In France, national statistics office INSEE indicated that the annual inflation rate was 5.8% in June, with a 5.8% rise in food prices. Underlying inflation, which excludes energy prices, was up 3.7% on an annual basis. On Monday, the French government is putting before Parliament a bill addressing the cost-of-living crisis.

The bill’s content will be scrutinised very closely by the fashion industry. According to a study by market research firm Ipsos, published at the end of June and carried out in April with a sample of 2,000 people, nearly 9 out of 10 consumers are feeling the pinch. And while lockdowns had forced people to save money they then spent on discretionary purchases when restrictions were lifted, French consumers are currently concentrating their spending on food.

But, according to Ipsos, “consumers now say they are making ‘select savings’ on so-called ‘secondary’ necessities such as socialisation and cultural expenditure (for 60% of them), clothes (56%) and high-tech gadgets (54%).”
The challenge is therefore a major one. Apparel consumption has been declining for several years in France, and the lack of interest in the current summer sales seems to confirm the trend. How can labels remain competitive when, to make matters worse, costs are rising?

Major luxury groups are easily able to absorb such increases. When LVMH, Kering and Chanel presented their annual results in early 2022, they clearly indicated they would be revising upwards their most iconic products' prices repeatedly during the year. Price increases are simply business as usual for these labels. The reason is that luxury consumers in general have not experienced a significant drop in their standard of living, and besides, they have rejigged their consumption priorities in favour of luxury goods, while travel and experiential expenditure shrunk during the pandemic.

As a result, according to Retviews, luxury goods prices increased by 15% between January 2021 and January 2022. This does not seem to be particularly concerning for labels at the very top end of the spectrum, which continue to raise their products’ prices, but it is instead a headache for many labels with a more affordable positioning.
In the face of rising raw material costs, growing energy prices, skyrocketing international transport costs and unprecedented delivery delays, the issue of whether or not to pass on price increases to consumers has been a crucial one in recent months for fashion labels. Of course, this did not come as a surprise for industry observers. But, in a global inflationary environment, how to retain clients, both retailers and end-consumers? For a long time, the industry has preferred to ignore the question.

In summer 2021, very few labels assumed that the sector would be forced to contend with generalised price increases. Talking explicitly about them, at a time when consumption was showing signs of recovery, lockdowns were being lifted and inflation was merely beginning to raise its ugly head, was considered taboo. A few major players, listed group mostly, reluctantly addressed the issue when presenting their financial results. At the start of the year, the CFO of Fast Retailing Group, Takeshi Okazaki, said: “We have reached a point where we have no choice but to increase the price of some products.”

However, some groups had already taken practical measures concerning prices in 2021. Lectra’s analytical tool Retviews carefully scrutinises the product range featured on the e-shops of major mass-market fashion brands as well as premium labels. Comparing the trend in average prices between spring 2021 and spring 2022, the picture that emerges is starkly clear.

![EU Market Average Price 2021 vs. 2022](Retreviews 2022)

In winter, prices were already rising at a rate of 5% for mass-market brands - their average price per item growing from €36 to €38 - and at a rate of 4% for premium brands, but in recent months prices have soared even higher. “Price increases are common and significant on US and European apparel markets,” said Retviews. Taking into account the collections of the top mass-market brands in the USA (Abercrombie & Fitch, Gap, Aritzia, Uniqlo and American Eagle), Retviews identified an average price increase of 11% in 2022 over 2021.

In Europe, the average across-the-board price increase in 2022 for major mass-market retailers like Zara, Uniqlo and Mango, although more modest, was still as high as 8% annually. “In France in 2022, these brands increased their prices by 7%. In Italy and Germany, the price rises observed were 8% and 9% respectively.”

In Europe, Retviews pointed out that Inditex-owned Zara increased its prices by 11%, its average price now approaching €40, as the chain aims to raise its profile in its customers’ eyes. To do this, Zara has featured more limited-edition collections and also opted to use fabrics that are perceived as more upmarket.

Since the start of 2022, most labels are being open about the impact the global economic situation is having on their collections. The surge in raw materials’ costs is painfully real. The price of cotton has oscillated widely, and in 2021 it jumped by 45% year-on-year, while the price of cashmere rose by more than 30%. Petroleum-based
2021 it jumped by 45% year-on-year, while the price of cashmere rose by more than 30%. Petroleum-based fabrics have also, to some extent, followed the fluctuations in oil barrel prices.

Since commercial campaigns for the Fall/Winter 2022 collections began, labels have been tweaking their strategies. “We experienced increases of the order of 25% on all components. Offering the same product at the same price is impossible,” said Edouard Crabos, president of French apparel brand Pyrenex. “If you don’t raise prices, you have to compromise on quality, and this is not our philosophy,” he added.

“We have tried to contain price rises as much as possible, deciding not to raise the price of some product categories. This is the case for sweaters and knitwear, but also entry-level essentials, like our basic t-shirts, which are still priced €20. It’s a benchmark price,” said Julie de Leyssac, head of ready-to-wear collections at Les Tropéziennes, an exhibitor at the Who's Next trade show in Paris.

“We are having to work on our margins to absorb costs,” said Alexandre Melkonian of Fuego. “But we don’t want to touch [product] quality. We have decided not to exceed the 10% [price] rise threshold. Instead, we are focusing on essentials, and have reduced by 15% the number of items on offer,” he added.

At the stand of women’s ready-to-wear brand Idano, Sophie Parent and Catherine Kopp too noted there is a widespread rise in fabric prices: “We don’t necessarily have equivalent products, because we’ve done a huge amount of work on more sustainable sourcing. For example, the viscose we use is certified. Customers are very receptive to this.” Overall, the brand expected an increase of around 10% in retail prices, while keeping the mark-up for multibrand commercial partners unchanged.

Many brands had actually anticipated the spike in raw materials’ costs by planning and ordering ahead, so as to be able to wait for the prices of natural and petroleum-derived fabrics to drop.

Brands have had to find alternative solutions, but fabrics are by no means the main component in a product’s price, as Gildas Minvielle of the French Fashion Institute’s economic observatory told FashionNetwork.com, following a study carried out in August 2021 with labels and retailers. “Even if raw material prices are soaring, it must be understood that, while these increases have a massive impact on producers, when it comes to labels, the impact on final retail prices is watered down. In practical terms, this means increases in the region of one or two euro per item.” At the time of the survey, only 9% of respondents envisaged price rises between 5% and 10%, while 49% envisaged a rise of less than 5%. “But we carried out this survey when it was commonly agreed that the pressure on costs, particularly transportation costs, would not last,” added Minvielle.

Since then, the situation has changed significantly and pressure on shipping costs is still high, so that the number of brands forced to make price increases has multiplied. Fashion brands have had to cope with skyrocketing...
Fashion brands have had to cope with skyrocketing freight costs: a container from China or Vietnam went from costing €3,000 in 2019 to as much as €17,000 at the height of the logistics crisis. The price is now said to be approximately €10,000.

Many labels have therefore indicated they intend to reduce their dependence on Asian sourcing. “Our transportation costs have gone up sharply, especially from China and India,” said Emma François of French label Sessun in spring. “We don’t necessarily want to give up producing in these regions, but we have been forced to find other solutions. For example, we bought the fabrics for next winter’s collection back in October [2021],” she added. Brands have brought their operational calendar forward by more than a month, to try to avert potential production and delivery issues.

At the start of the year, European labels were looking to shift part of their sourcing closer to home, in the Mediterranean basin, Eastern Europe and Portugal, seeking for nearshore production options. However, owing to the invasion of Ukraine, economic instability in the Maghreb region and in Turkey, and with Portuguese output capacity close to saturation, the situation remains highly complex.

Specifically, Retviews observed that prices of cotton-based products have increased by 11%, those of linen-based products by 13%, while prices for goods made with viscose and polyester have remained relatively stable (up by 3% and 1% respectively), at least in Europe. Retviews also noted that, on average, accessories prices at mass-market retailers rose by 15%, underwear and t-shirt prices by 11%, and those of footwear by 7%.

In a high-inflation world, will the commercial battle for the coming seasons be waged with prices? Very much so, at least in the entry-level and mid-range segments. Not all actors intend to premiumize their positioning, like Zara and H&M are doing. As a result, and since differentiation options in a hyper-competitive market are limited, reliance on low prices and heavy discounts is likely to be long-lasting. Retailers like Monoprix and Intersport for example have said they are working to control cost increases, and avoid passing them on to retail prices.

The tune is slightly different in the premium segment. At the end of the sales campaign for the Fall/Winter 2022 season, Jerome Trodjmann, boss of Parisian showroom Talk Studio, said that, despite the situation, multibrand retailers had responded well. “Independents [retailers] that did good business at the end of the year came here looking for interesting collections. They were keen to experiment, and price was not an issue, because their customers are willing to spend, and an extra €10 on a jacket doesn’t worry them,” he said.
The outlook seems similar for the Spring/Summer 2023 commercial campaign. The menswear trade shows staged recently in Europe were especially buoyant, from Pitti Uomo to the various Parisian shows. “There is good momentum,” said Christine Lancerot of Parisian showroom The Clothette, adding that she has been in touch with a great deal of French and international buyers. “Most of the labels we represent are in the premium and sustainable fashion segment, which is booming. Price rises aren’t necessarily a problem in the minds of buyers. And besides, since their volumes are growing significantly, these labels can to some extent cushion the impact,” she added.

Clearly, brands with an entry-level positioning whose business models are threatened by rising materials and freight costs are the worst hit. Some observers are secretly chortling with glee at soaring air freight costs, thinking that perhaps this is the start of the collapse of one of the underpinnings of fast fashion. The industry’s current primary concern is ensuring that products arrive in-store at the right time, in the face of the uncertainty caused by war and the regional lockdowns and transportation issues triggered by fresh Covid waves. Major brands, like sports-lifestyle giants, have had a troubled time in retail at the start of the year because their products were reaching the stores several months late, when they did arrive at all.

Brands that are able to handle this situation will therefore have a major advantage. They will try to strike their own balance between reducing margins and raising prices by a few percentage points, in most cases without touching so-called psychological price points, or those of entry-level products. A psychological war has therefore started, as labels strive to attract end-consumers. And those labels that had discreetly raised their prices by a few percentage points in previous seasons might have a head start. By seeming to keep their prices relatively stable, they could ingratiate themselves with consumers who are increasingly tightening their belts.

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