How Brands Can Deal With Rising Costs

From altering products to buying materials in bulk, brands and retailers are adapting to a volatile market. Brands and retailers are struggling to preserve cash at a time when everything from labour to materials to energy are becoming costlier on a daily basis. Raising prices alone won't be enough for businesses to maintain healthy margins.Managing inflation could also mean negotiating better rates with suppliers, using deadstock, introducing lower-price products and more.

Womenswear brand Mara Hoffman has a plan to keep inflation in check. It involves scrunchies.The ubiquitous hair accessories are part of an initiative at the brand to reuse old fabric where possible, rather than buying new materials. Like thousands of other labels, Mara Hoffman is trying to preserve capital at a time when the cost of everything, from labour to fabric to energy, is in flux. Deadstock is one answer the company hit on, as is buying popular fabrics, including recycled nylon, in bulk (so is raising prices on the brand's popular linen dresses and colourful swimsuits).

"Price increases are happening at a daily rate," said Dana Davis, vice president of sustainability, product and business strategy at Mara Hoffman, "Because the market is so volatile, one day something can increase by 40 percent, then the next day by 30 percent and then the next day it's up to 45 percent."etween the war in Ukraine, China's lockdowns, sky-high freight rates and spiking energy prices, the cost of running a fashion business is rising fast. A strong labour market, meanwhile, is creating hiring woes among employers, who now must pay a premium for coveted talent. Then there's the rising cost of digital advertising, with no signs of abatement in the near term. The prices of clothes in the US are now 6.8 percent higher than last year, according to the latest US Bureau of Labour Statistics report on the consumer price index."It's more costly to operate a business today than it was pre-Covid in almost every category," said Gary Wassner, whose firm Hilldun helps finance production for more than 400 fashion brands. "I hear it from everyone, everywhere."

It's not just that costs are rising. They're also more volatile, making financial planning more difficult, and preserving cash flow more important than ever. Automatically raising prices to match rising costs risks alienating customers. BoF spoke with industry experts about smarter ways to confront inflation.

Frugal Spending 101

The first step in preserving capital is not so much "cutting corners" as it is being efficient, Wassner said. Brands should look at small measures, such as ordering fewer samples, along with bigger solutions, he said.Brands could also look to alter their products in small ways, according to Eric Fisch, national sector head of retail and apparel at HSBC's corporate banking division. Hang tags, zippers and packaging, for instance, are subtle enough to change without eliciting too many complaints from customers.Fabric is a bigger expense — high oil prices are driving up the cost of plastic fibres such as nylon and polyester — but changing fundamental aspects of how clothes are made can be dangerous.

"If you go to the quality of the actual fabrics, then that's where you can get into real danger and people will be upset," Fisch said.

Direct-to-consumer handbag label Advene has seen the cost of its premium packaging, which includes dust bags and boxes, rise by 20 to 40 percent this year because paper production relies heavily on natural gas. The company has always offered a "minimal packaging" option for shoppers, but now it is the default option at checkout, along with an explanation communicating to customers about its rising expenses. Today, 70 percent of shoppers end up choosing minimal packaging, up from 50 percent last year.

Rising wages are driving some brands to explore automation.

Los Angeles-based knitwear brand Knorts found a creative solution to rising costs by purchasing a secondhand industrial knitting machine last summer. Founder Eleanore Guthrie sought help from a local technician who taught her how to use it, and in turn, the machine has helped her save what it would have cost to hire five or six hand loomers. As a result, Knorts has been able to resist raising the prices of its $550 knit denim pants and $225 halter vests, even despite the 200 percent increase in shipping Guthrie's yarn and lycra from overseas.

Optimise Production Costs

When it comes to manufacturing costs, Advene got lucky. While its leather and paper suppliers are seeing their natural gas bills go through the roof, the brand's primary factory in Italy is powered by solar energy.

Not everyone can afford to source a clean-energy factory, but now may be the time to explore new production partnerships. Mara Hoffman is looking at domestic or near-shoring production, while Fisch of HSBC said brands could bid out its production, seeking vendors who could make the same product for cheaper.

Of course, this comes with a quality risk and may require deposits upfront, Fisch warned, but with the right partner, the upside may be worth it.

Buy in Bulk

Purchasing a larger-than-usual quantity of materials is an easy way to negotiate lower prices with suppliers, especially when those prices are changing on a daily basis.

Guthrie of Knorts has been buying her fabric in bulk orders so she doesn't have to absorb the rising costs of shipping as often, while Mara Hoffman is buying large quantities of recycled nylon textile, which has been particularly volatile. Recycled nylon is one of the most common fabrics the brand uses, such as for its black swimsuits, which it will always carry in evolving styles.

The label is also seeking partnerships with other brands in order to build up negotiation leverage. It's working with Fibershed, a non-profit sustainable fibre organisation that runs a programme called Climate Beneficial, which pools cotton and wool on behalf of numerous brands, resulting in lower prices for all participants.

The caveat is that consumer demand isn't guaranteed. Keeping inventory count as low as possible is an important way to avoid waste, even if a brand is stockpiling raw materials.

"The big question is, will the consumer be shopping in the back half of the year?" said Fisch. "Everything will be fine as long as the consumer is spending."

Finessing the Price Increase

Protecting profit margins isn't as simple as raising prices and cutting costs. When Advene raised the price of its hero product from $495 to $595 in February, it was in response to higher manufacturing costs, including an upcoming €2 per square metre surcharge on leather from its German tannery. But the number of transactions quickly fell, though overall sales increased.

"It's kind of scared some of the customers away," said Zi Xuan, co-founder of Advene. "We're covering our costs but it's now more challenging on our end to convince customers to purchase."

What Advene is seeing today is a typical market reaction to price increases, according to Polly Wong, president of marketing agency Belardi Wong. Among the agency's 400-some brand clients, there has been an average conversion decrease of 12 percent year-to-date due to higher prices as well as weaker consumer demand.

Boy Smells, the candle and fragrance company, raised the prices of its candles by 9 percent. While that won't cover the company's increased shipping costs, chief executive David Duplantis said the brand didn't want to go higher, since the accessible pricing of its candles relative to some luxury competitors, "is an important aspect to building our community."

This effect is even more pronounced for cheaper products, according to Fisch.

"Our clients who sell to Walmart or Target, when they alter their price from $8.99 to $10.99, that $2 doesn't sound like a lot but it impacts that consumer significantly," he said.

Loyalty programmes and encouraging customers to buy in stores, where margins per purchase are higher, are two tactics to limit the damage of increasing prices, according to Wong. The most effective strategy, however, may be to introduce a new assortment of low-price, low-cost products.

“We have a children’s apparel client and their average dress is $40,” Wong said. “Now they’re introducing a $25 dress with a different fabric, no embroidery.”

Chavie Lieber contributed reporting to this story.
https://www.businessoffashion.com/articles/retail/how-brands-can-deal-with-rising-costs/?utm_source=newsletter_dailydigest&utm_medium=email&utm_campaign=Daily_Digest_200422&utm_term=BW564QZCX5HW5AG6MYX6G3JCJM&utm_content=top_story_1_title