

Can Better Fashion And Enhanced Savings Help Abercrombie & Fitch's Results?

By Trefis Team for Forbes

June 12, 2014

[Abercrombie & Fitch](#), which was once among the most sought after lost a number of its customers to other brands in the last two years. While the company's comparable sales increased by 7% and 5% in 2010 and 2011, respectively, they declined by 1% in 2012 and slumped by 11% in 2013. Abercrombie's premium prices, its slow response to changing trends and seasons, along with improper inventory management, were the main reasons responsible for its dismal sales. In an environment where teenage buyers are extremely cost and fashion conscious, Abercrombie hasn't been the most viable shopping option.

However, the company is trying hard to win back customers by aggressively working on improving

apparel brands in the U.S., has

fashion and reducing product prices. Earlier this year, it hired a tech firm, First Insight Inc, to [test its merchandise](#) for customer response during the product development cycle. This move was expected to help Abercrombie reduce the risks involved in launching a new collection. We are eager to see if the retailer's products received the desired response in Q1 fiscal 2014, which will become clear when the company comes out with its quarterly results on May 29. Apart from revamping its fashion content, Abercrombie is planning to bring its prices down to a more competitive level. To ensure that this move doesn't put pressure on its margins, the retailer is taking certain steps to lower its SG&A expenses

and source goods at cheaper prices.

While the aforementioned moves appear valid, we may not see a significant improvement in Abercrombie's results in the near future. Yet, the slightest glimpse of recovery will indicate that the retailer is moving in the right direction.

[Our price estimate for Abercrombie & Fitch stands at \\$39.72](#), which is about 10% ahead of the market price.

[See our complete analysis for Abercrombie & Fitch](#)

Better Fashion Can Have A Positive Impact On Customer Response

Can Better Fashion And Enhanced Savings Help Abercrombie & Fitch's Results?

By Trefis Team for Forbes
June 12, 2014

Taking cue from successful low-cost fast-fashion brands such as [Gap Inc](#), [Urban Outfitters](#), Forever 21, H&M etc., Abercrombie is looking to revamp its product portfolio. The company is working on improving its designs, shortening lead times and increasing style differentiation to offer a better variety of fashion assortments and remain responsive to changing trends. Abercrombie's partnership with First Insight Inc will enable it to test its products much earlier in the product development cycle and plan their launch accordingly. First Insight Inc leverages online social engagement tools to study consumer preferences and provides predictive

analysis to the company. It also incorporates customer feedback before giving a recommendation to Abercrombie. In its recent quarterly update, the retailer stated that it is now testing 100% of its assortments, that will help it better understand customer tastes, and reduce the risks related to its fashion launches.

Efforts To Improve Cost Savings Can Help Margins

Additionally, the company is employing a vertical organization structure for categories such as planning, merchandising and design for each individual brand. Along with brand differentiation, this should help Abercrombie effectively

address the needs of its business. The retailer is utilizing new fabric platforming techniques to increase its speed to market and it will also start including vendor designed products in its merchandise mix Q1 fiscal 2014 onwards. Overall, we expect these efforts to translate into a more appealing product range that can help Abercrombie attract customers. However, given that Abercrombie's brand image has taken severe damage over the past several quarters due to its missed fashion calls and controversial comments, a turnaround in the first quarter seems unlikely. Nevertheless, fresh fashion will be welcomed by the customers.

Can Better Fashion And Enhanced Savings Help Abercrombie & Fitch's Results?

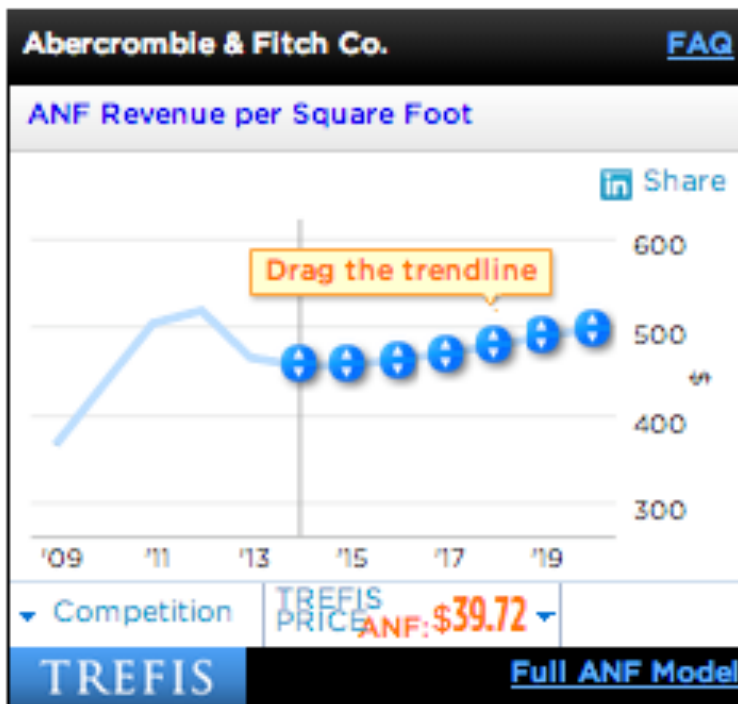
By Trefis Team for Forbes
June 12, 2014

Since the U.S. retail industry has been relatively bleak over the last one year on account of weak economic environment, buyers have been placing greater value on the cost of products.

competitors' prices. Although the retailer is striving from competitive prices in order to improve its store traffic, enhanced pressure on margins is threatening for its profitability. As a result,

attract customers do not end up eating its profits.

Abercrombie is planning to reduce the cost of its clothing, to help offer products at lower prices without much pressure on its margins. The closure of its intimate brand *Gilly Hicks* is also expected to have a certain positive impact on its cost savings. The retailer closed 16 *Gilly Hicks* stores during Q4 fiscal 2013 and is expected to shut the remaining ones in the first quarter of 2014. In its last earnings call, the company stated that it saved nearly \$25 million during the fourth quarter as a part of its profit improvement initiative. For fiscal 2014, Abercrombie expects to save \$175 million in areas such as store repairs and maintenance, store packaging, IT, supplies, and corporate overhead.



Therefore, it's necessary for Abercrombie to keep its prices affordable and somewhat in line with its

the retailer is looking to enhance its cost savings to ensure that its efforts to

Forbes

Can Better Fashion And Enhanced Savings Help Abercrombie & Fitch's Results?

By Trefis Team for Forbes

June 12, 2014

With better fashion content and lower product prices, the retailer should be able to drive greater store traffic and operate with fewer markdowns. Moreover, its enhanced savings can have a slight positive effect on its operating margins. That said, the impact of these factors might not be strong enough to pull Abercrombie out of its slump.