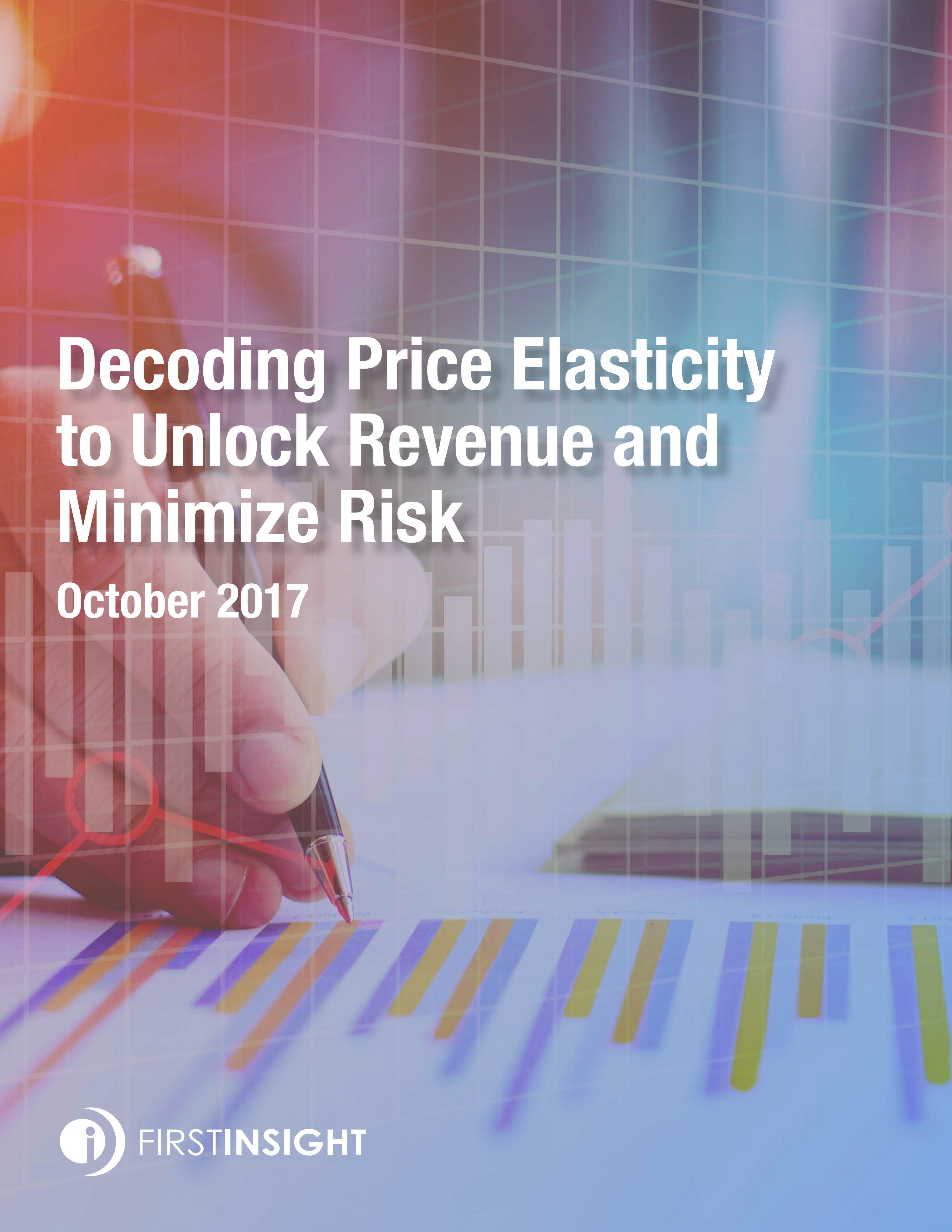


Decoding Price Elasticity to Unlock Revenue and Minimize Risk

October 2017

FIRSTINSIGHT

First Insight examined pricing and elasticity trends on over 90,000 items processed through InsightSuite -- the company's predictive analytics platform which enables retailers and manufacturers to select, price, market and buy new products with no sales history -- between September 2015 and August 2017, along with other proprietary data sources. Categories included womenswear, menswear, childrenswear and home goods across North America and Europe.

First Insight is a cloud-based technology company that provides predictive analytic data to retailers, brands and manufacturers on new products before they go to market across many categories globally. The company applies proprietary predictive models to real-time consumer data to determine which products, price points and attributes will resonate with consumers.

Using its proprietary data on the elasticity of demand, First Insight calculated average price elasticity and the change in elasticity by category and subcategory over the last two years. Relative change in elasticity was plotted on the vertical axis of a coordinate plane.

First Insight also calculated average prices for each category and subcategory, based on aggregated data across over 90,000 items for the same time period. Pricing changes were plotted on the the horizontal axis of the coordinate plane.

The result of this analysis is a tool which enables retailers to better understand pricing opportunities and risks. The resulting quadrants were labeled:

Note: First Insight Elasticity Report and the contents herein, including the estimated price elasticity forecasts, (i) do not in any way contain, reflect or relate to actual specific product purchases by consumers; and (ii) are solely for informational purposes and shall not be relied upon by any person for the purpose of investment or other financial decisions.

The First Insight Elasticity Study found that:

1. Womenswear, a **well-managed opportunity**, is seeing decreases in elasticity and represents opportunities for retailers to maintain or increase prices, particularly in swimwear where shoppers are becoming less concerned with price. Conversely, frequent purchases such as women's

outerwear, accessories and tops are seeing increased elasticity. These trends are consistent with the maturing womenswear market, as older shoppers are buying fewer items, and cash-strapped Millennials who are drawn to fast-fashion brands are driving greater elasticity on everyday purchases.

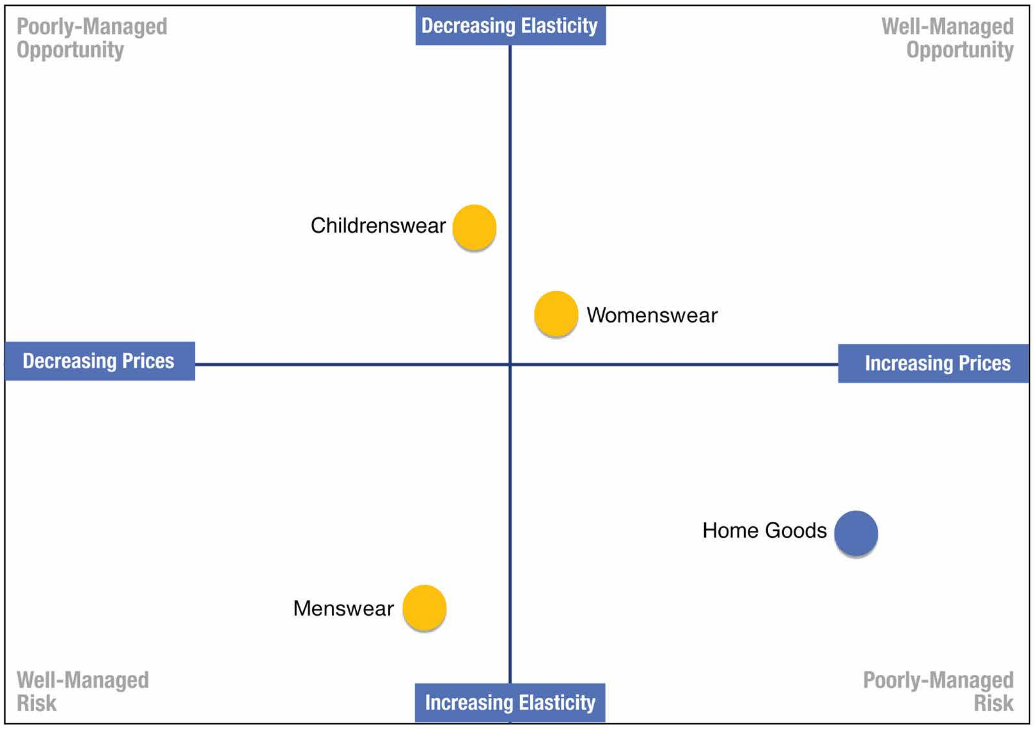
2. Sales in the menswear category are increasing according to recent U.S. Census data, and retailers have been effectively balancing price with increasing elasticity overall, making the category a **well-managed risk**. However, significant shifts in subcategories remain, as elasticity in underwear is falling, creating an opportunity for retailers to increase pricing. Bottoms, in contrast, continue to become more elastic as pricing increases and retailers need to take note to avoid overstocks due to decreases in sales.

3. Research shows that while overall sales of childrenswear are falling, some brands and retailers are seeing significant growth. This is in line with First Insight's report which found that elasticity is falling along with pricing, making it a **poorly-managed opportunity**. Sleep/loungewear in particular has shown declining elasticity as well as moderately falling prices, which makes it primed for price increases. However, not every subcategory represents opportunity. In the bottoms category, for example, where elasticity and pricing are both increasing, retailers need to be wary of buyers' diminishing appetite for higher prices.

4. The home goods category, traditionally the least elastic, is seeing a significant increase in elasticity as buyers become more sensitive to price changes, consistent with the increase in cost-conscious Millennials buying and furnishing their first homes. However, prices in the category have been rising, representing a **poorly managed risk** to retailers if continued price increases result in fewer sales over time.

Overall

Throughout the graphics in this report, categories with above-average price elasticity are colored orange and categories with below-average price elasticity are colored blue.



In Womenswear, Opportunities to Increase Prices in Swimwear, as Dresses and Outerwear Hit Pricing Peak

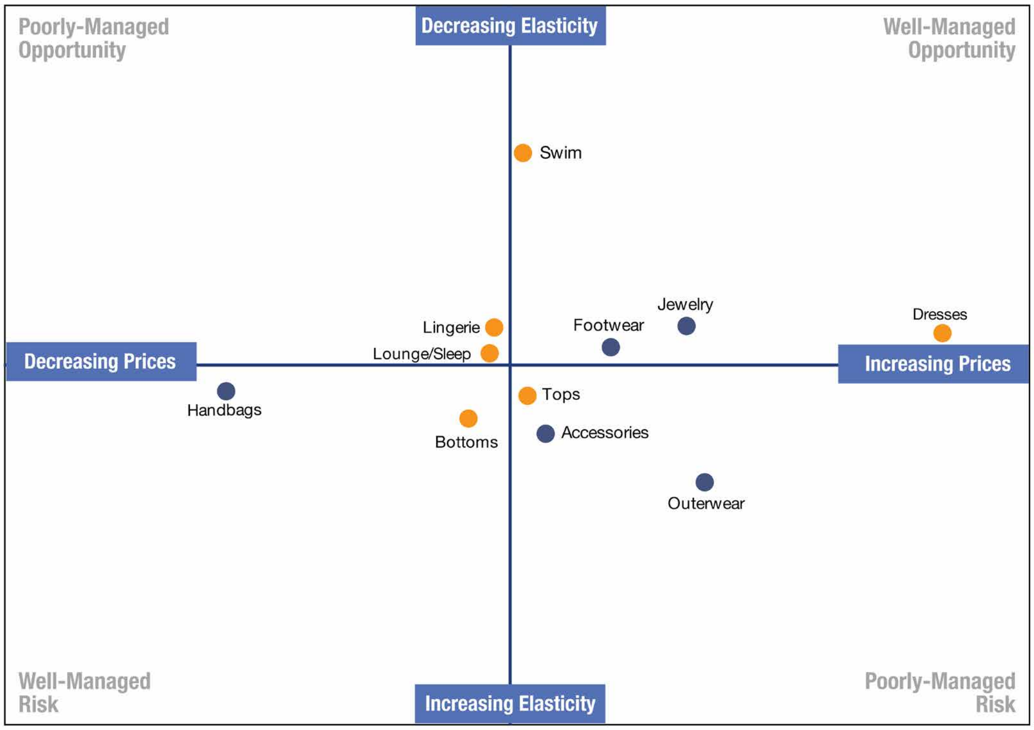
First Insight's research shows that the overall elasticity in the women's clothing category is trending downward, meaning that shoppers are becoming less concerned with price. This is good news for retailers. According to a recent Bloomberg article on women's fashion, 60 percent of women are buying fewer clothes than they were 10 years ago, with older women buying fewer new clothes as they age. The story also reported that younger shoppers are still purchasing clothes, but with less spending power, and that they tend to shop at cheaper, fast-fashion retailers like H&M and Forever 21.

Looking deeper at a sub-category level, the historically elastic lounge/sleepwear and lingerie subcategories are becoming less elastic while swimwear elasticity is plummeting, as shoppers are becoming less concerned with price. At the same time, retailers are actually decreasing or holding steady on prices in these subcategories.

Conversely, everyday purchases such as women's outerwear, accessories and tops are seeing increasing elasticity. These trends are consistent with the maturing womenswear market, as older shoppers are buying fewer items, and cash-strapped Millennials who are drawn to fast fashion brands are driving greater elasticity in everyday purchases.

Womenswear

While dresses are showing less elasticity and increasing prices, it is likely that pricing is at or near its limit, and retailers should be measured in their approach to raising prices more.



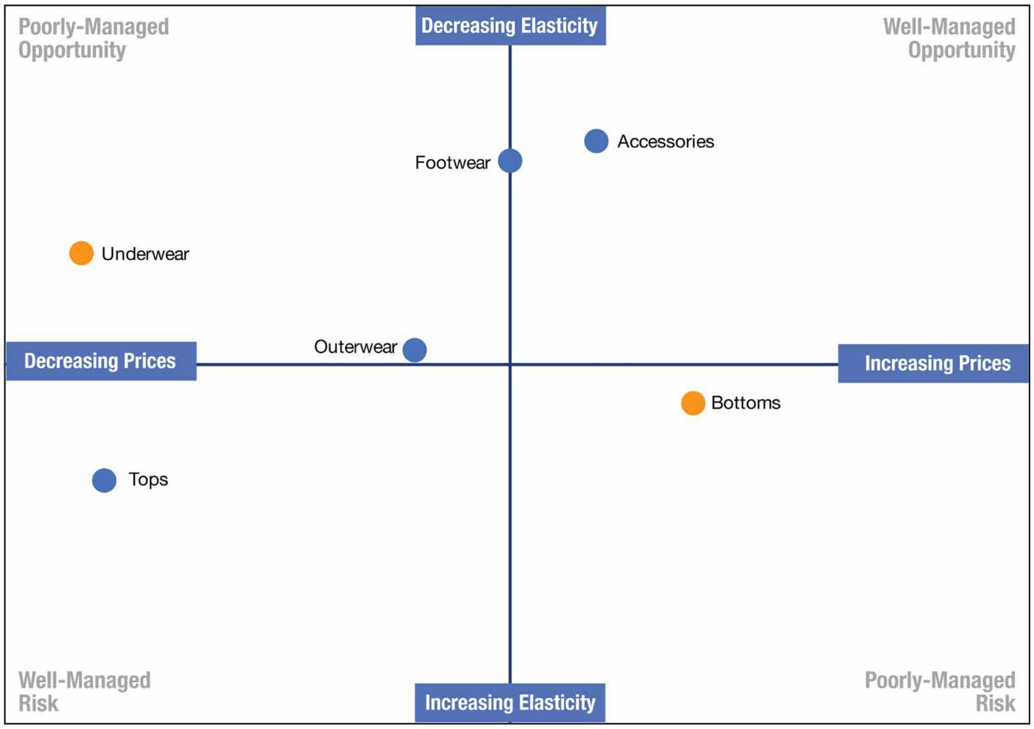
In Menswear, Shoppers Are Less Price Conscious About Underwear But Remain Watchful of Pricing on Bottoms

The menswear industry is hot right now, as the U.S. Census Department data on retail sales for June 2017 reported a 6.4 percent increase in retail sales at men's clothing stores. According to a subsequent story in Forbes, men are spending more on clothes and are paying serious attention to their presentation, and men's footwear is now considered as big a business as women's according to Beth Goldstein, industry analyst for accessories and footwear at The NPD Group.

So far, most retailers have been effectively balancing price with rising elasticity overall. But significant shifts in subcategories show opportunities to increase pricing, as well as categories where pricing should be stabilized. Underwear is a key example, as it has been a largely elastic category historically, and retailers have been responding with lower prices. However, First Insight data shows significantly decreasing price elasticity in underwear, making it a prime target for steadying or even increasing price. Outerwear, while traditionally a less elastic category, also shows similar opportunities for price increases. Tops seem to be well-managed, as they show an upward trend in elasticity and reduction in prices by retailers, who will likely continue to offer promotions. In footwear and accessories, elasticity is falling: in accessories, retailers have increased pricing to take advantage, while in footwear, prices appear somewhat stable.

Menswear

Bottoms continue to maintain relatively high elasticity and it is increasing, which means raising prices here would prove risky for retailers and could result in fewer sales.



Significant Opportunities in Sleepwear and Tops as Price Elasticity in Childrenswear Plummets

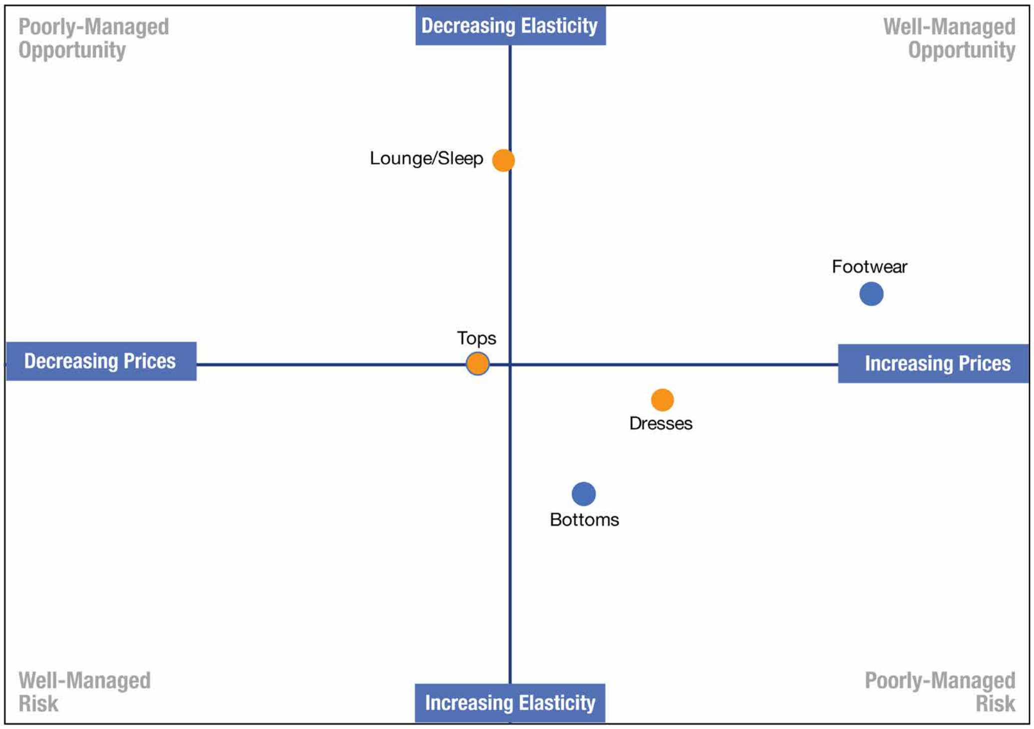
IBISWorld estimates that total revenue for children's and infants' clothing stores will fall at an annualized rate of 1.7 percent over the five years to 2017, even while brands like Carter's and OshKosh have grown in revenue, and Target spending on kid's apparel at its stores increased more than 50 percent since last year. First Insight's look into the elasticity and pricing trends revealed that childrenswear represents the largest drop in elasticity of any category. Meanwhile, retailers are missing the opportunity in some categories by lowering prices.

Sleep/Loungewear, a traditionally elastic category, has shown lessening elasticity and slightly decreasing prices, which makes this category primed for price increases. Price elasticity is relatively high and stable in tops, with prices declining, indicating an opportunity for modest price increases in this category.

However, in the bottoms category, elasticity and pricing are both increasing, and retailers need to be wary of buyers' sensitivity to higher prices.

Childrenswear

The children's footwear category is very well managed by retailers, as the elasticity is decreasing and prices are trending upward. However, retailers may have reached the maximum prices shoppers are interested in paying for childrens' shoes.



In Home Goods, Elasticity in Furniture Is Increasing Significantly while Textiles, Houseware and Decor Show Opportunity for Price Increases

The home goods category, historically the least elastic, is seeing a significant increase in price elasticity overall according to First Insight's findings. This is consistent with figures from the National Association of Realtors that show that cost-conscious Millennials have become the largest group of homebuyers in the U.S., now accounting for 34 percent of home purchases. Additionally, Scott Goldenberg, Senior EVP and CFO of The TJX Companies reported that more than 30 percent of the company's business is in home and that the category resonates with millennial consumers.

However, while purchasers have become more averse to price increases, prices in the category have actually been rising, representing a significant risk to retailers, particularly in light of the growth of lower-priced options like TJ Maxx's HomeGoods and HomeSense stores.

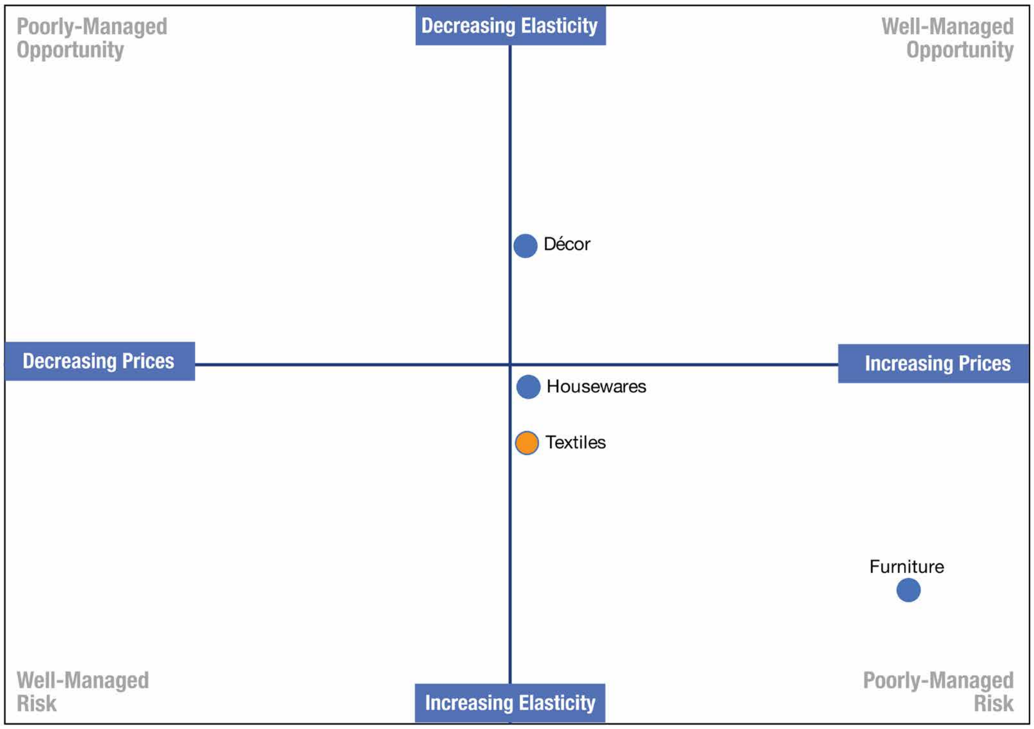
Furniture, while historically less elastic than other categories, shows increasing elasticity and prices. Retailers need to be mindful that prices may be topping out now, or suffer problems with excess inventory or moving items to the off-price market.

Textiles show significantly higher elasticity than other categories, likely fueled by frequent purchases and faster-moving trends. However, similar to housewares, there remain opportunities to maintain or increase prices moderately according to the First Insight findings.

Discounts and incentives will be necessary to encourage sales in these categories, particularly with Millennials.

Home Goods

Decor purchasers remain the least concerned with price and retailers have matched it by increasing their price tags, however further increases are still possible.



Conclusion

An analysis by First Insight examining pricing and elasticity trends reveals that many retailers and brands do not fully understand how to adjust pricing to meet elasticity across many retail categories. Further, retailers are subjecting themselves to risks associated with pricing items too high (leading to excess inventory) or too low (sacrificing margins). As fast-moving industry trends such as aging Baby Boomers, growth in Millennial spending power and migration to online shopping continue to have an impact on pricing and demand, offering the right product at the right price will be a key determinant of the success or failure of retailers and brands. Retailers able to meet shoppers at the intersection of price and elasticity have the greatest opportunity to increase sales and revenues with the least amount of risk.

For a digital copy of the report, visit:
www.firstinsight.com/wwdceo

For More Information Contact

Gretchen Jezerc
VP Marketing & Product Management: First Insight, Inc.
Toll Free: (866) 584-1960
gretchen.jezerc@firstinsight.com