Textile Consumer™

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# Quality in Clothing: Does it Matter, and Will Consumers Pay More for It?

Quality in apparel can be defined by the way an item fits, how it is sewn together, how well it launders, or its durability. In essence, quality is in the eye of the beholder. Research on consumer attitudes and shopping behavior indicates that quality is essential in an industry that depends on product styling and quick inventory turns to achieve profitability. Yet this research suggests that while consumers demand a certain standard of quality, they are growing less inclined to pay a premium for it.

### *How Important is Quality?*

Apparel returns are inevitable, causing problems for shoppers and retailers alike, and an important reason for returns is dissatisfaction with quality. Although wrong size is the most common reason for returns, according to findings from Cotton Incorporated's Lifestyle Monitor™, nearly one out of five returns in 2002 was related to quality.

According to recent analysis of data from Planet Feedback (a consumer-oriented Web site that provides feedback for retailers on their performance), more than 5,000 consumers had logged comments about specific apparel retailers, and over 80% of this feedback consisted of complaints. Of the many industries listed on this Web site, the apparel industry is among the most likely to receive complaints about quality, which shows room for improvement. The primary quality concern of disgruntled apparel shoppers is the sewing and manufacturing of garments. This finding is supported by research on

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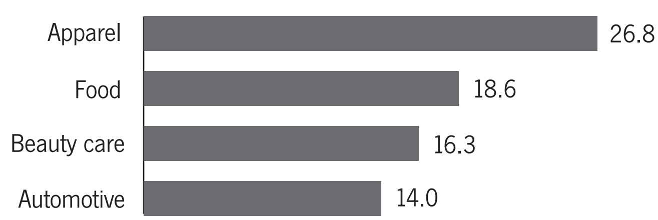
**Percentage of Consumer Complaints That Are About Quality, by Industry**




Source: PlanetFeedback.

# Competition Among Foreign Suppliers: Price Isn't the Whole Story

With 2005 and the phase-out of quotas on trade in textile and apparel products less than 18 months away, many mills and manufacturers are nervously eyeing the clock and fighting to trim production costs to remain competitive and still eke out a viable margin. As retail apparel prices have declined each of the last several years, price reductions have been pushed upstream throughout the textile pipeline, from retailers to distributors to mills and manufacturers. Recent issues of the *Textile Consumer* have noted this pervasive price pressure, addressing various causes and effects throughout the industry.

However, examples abound of suppliers who consistently increase their business at prices above the market average. At each stage of production, certain suppliers of cotton textile and apparel products to the U.S. market have thrived without competing solely on cost.

U.S. yarn manufacturing, a former bastion of the domestic textile industry, has seen its domestic market share eroded by a flood of low-priced imports. For example, Pakistan's shipments of carded and combed yarns were scant a decade ago, but have grown to lead the world, accounting for 22% of total U.S. cotton yarn imports. The volume of Pakistani shipments has surged in part because Pakistani yarn consistently costs less than the world average price of yarns destined for the United States. However, price is not the only basis on which yarn manufacturers have competed successfully. Italy

*(continued on page 3)*

## Does Quality Matter? *(continued from page 1)*

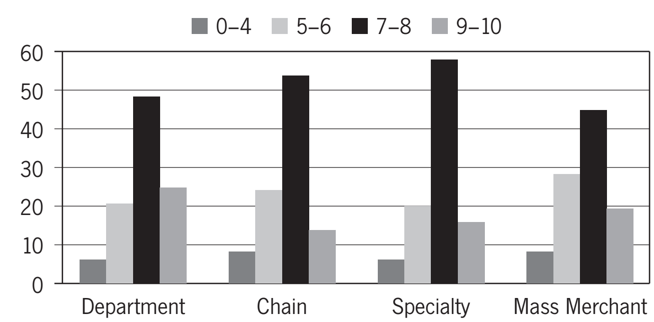
industry returns conducted by Cotton Incorporated in 2000, which found the primary quality problem to be defects in sewing.

### *Does Quality Drive Shopping Behavior?*

When offered the choice between purchasing a fashionable or a high-quality garment, 62% of consumers prefer quality, according to the Lifestyle Monitor. However, the percentage choosing quality over fashion in 2002 was down significantly from 68% in 1998. This decline is clearly related to consumers' increased "cross-shopping" behavior — their willingness to shop for clothing at more than one retail channel. More than 80% of consumers shop several retail channels for apparel, and this cross-shopping is driven largely by the search for favorable prices, styles, and colors—not by a search for quality.

Consumers at all retail channels are largely satisfied with the quality of clothing available. On a scale of 0 to 10, where 0 means "not at all satisfied" and 10 means "extremely satisfied," mean scores and score distributions were generally similar among shoppers at the four major retail channels. Means ranged from 6.9 for mass merchants to 7.4 for department stores, and no more than 8% of consumers gave any of these outlets a rating of less than 5.

**Consumer Ratings of Satisfaction with the Quality of Apparel Offered, by Retail Channel***




| | Department | Chain | Specialty | Mass Merchant |
|---|---|---|---|---|
| **Mean rating:** | 7.4 | 7.1 | 7.2 | 6.9 |

Source: Cotton Incorporated's Lifestyle Monitor™.
*Percent of respondents in each ratings category, excluding "don't know."

### *Do Shoppers Associate Price With Quality?*

The Lifestyle Monitor asked consumers whether they agreed with the statement "higher-priced clothes are better quality than lower-priced clothes." In 2001, 35% agreed, but in 2002, the percentage dropped significantly, to 30%. This decline may be attributable to greater savvy among mass merchandisers in providing stylish, durable apparel at low prices. This strategy has enabled mass retailers to gain market share by luring select department, chain, and specialty store shoppers into buying most of their apparel in a lower-cost setting. The proportion of consumers buying most of their apparel at mass merchants has increased by 4 percentage points over six years, while the percentage shopping primarily at the other three channels has declined by 8 points.

Monitor data also show that shoppers are less likely to correlate price with durability or stylishness of apparel. Furthermore, shoppers at different retail channels are growing more similar in their attitudes. For example, when consumers were asked in 2001 whether higher-priced clothes were more stylish, the spread in responses among shoppers at different retail channels was 21 percentage points (35% for specialty stores to 56% for mass merchants), but in 2002, the spread shrank to 15 points (34% for specialty stores to 49% for department stores).

**Percent of Consumers Who Agree That Higher-Priced Clothes Are More Durable or Stylish**

| | Total | Dept. | Chain | Specialty | Mass |
|---|---|---|---|---|---|
| Higher-priced clothes last longer. | | | | | |
| 2001 | 41 | 46 | 42 | 27 | 43 |
| 2002 | 34 | 38 | 31 | 24 | 40 |
| Change | –7 | –8 | –11 | –3 | –3 |
| Higher-priced clothes are more stylish. | | | | | |
| 2001 | 45 | 49 | 42 | 35 | 56 |
| 2002 | 41 | 49 | 38 | 34 | 42 |
| Change | –4 | 0 | –4 | –1 | –14 |

Source: Cotton Incorporated's Lifestyle Monitor™.

### *How Do Brands Affect Perceptions of Quality?*

To increase margins, many retailers have focused on building their private-label business, including mass merchandisers, who have acquired well-known brand names and diversified their portfolio of offerings. According to industry sources, the number of brands purchased at Wal-Mart reportedly doubled from 1990 to 2002. Acquisitions included brands such as Faded Glory, Catalina, and White Stag, which once were national apparel brands distributed through other retail channels. Acquisition of these brands, coupled with distribution of well-known names such as Hanes, Disney, and, most recently, an extension of the Levi's label, allows Wal-Mart to offer a wide range of clothing at low prices. The same trend can be seen at Target, whose brand acquisitions include Mossimo and Cherokee.

According to the Lifestyle Monitor, such acquisitions have most likely paid off: 78% of consumers state that the brand is more important than the retail channel in which it is distributed. Most consumers say that when a well-known brand once sold only at department stores becomes available at mass merchants, its quality remains the same. Only 15% of consumers say its quality declines, and 7% say its quality might even improve.

### *Will Consumers Pay More for Higher Quality?*

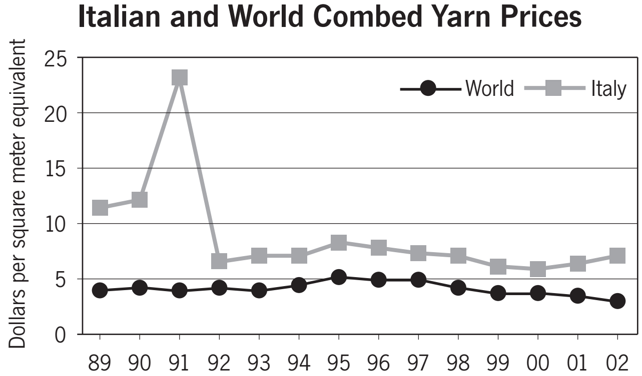
The conventional belief that consumers will pay more for higher-quality apparel is being challenged. Since the inception of the Lifestyle Monitor in 1994, consumers have been questioned about their willingness to pay more for higher-quality clothing, and the results have been similar to the trend in apparel prices—deflationary. In 1994, 64% of consumers were willing to pay more for higher quality, compared with 56% today. Consumers are choosing to forgo some degree of quality for lower prices. However, as mass merchants have become able to provide apparel of a quality that satisfies most consumers, and with over 80% of consumers now cross-shopping retail channels, U.S. consumers are coming to expect similar quality at all channels and across most brands. In 2003, the majority of consumers still are willing to pay more for higher-quality garments, but that attitude may be fleeting. ■

## Price Isn't the Whole Story *(continued from page 1)*

has supplied combed yarns to the United States at costs well above the world average each year since 1989. One would expect Italy to have lost import share to lower-cost suppliers; instead, Italy has seen its market share rise over this period, from 15th among foreign suppliers in 1989 to 3rd in 2002. Italian yarn spinners have accomplished this by specializing in specific types of fine-count single and plied yarns used in the production of high-end apparel.

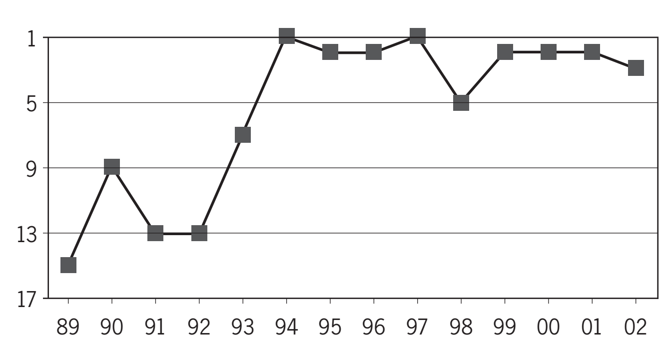
Home textiles provide another example where suppliers have bucked the trend of increased price competition. U.S. terry towel imports have grown 275% since 1989. The price of towels from India, the largest foreign supplier, generally has been below the world average price of towels destined for the United States. In 2000, when prices of Indian towels imported into the United States surpassed the world average price, India lost market share the following year. In contrast, Turkey has gradually expanded its share of towel shipments despite prices exceeding the world average price by an average of 179% over the past 13 years. From 1989 to 2002, Turkey climbed from 22nd to 5th among foreign suppliers of terry towels. Turkish bath towels are sold by catalog retailers such as L.L. Bean and Garnet Hill at prices well above the U.S. average.

**Italian and World Combed Yarn Prices**




Source: OTEXA.

**Italy's Rank as a Foreign Supplier of Combed Yarn**




Source: OTEXA.

This phenomenon is evident not only in relatively capital-intensive segments of the pipeline, like yarn spinning and greige and home fabric production, but also in more labor-intensive apparel operations. Imports of men's and boys' knit shirts, the second-largest category of cotton apparel imports, have grown 483% since 1989, largely on the strength of preferential trade agreements such as NAFTA and the CBI, which have provided increased access to the U.S. market, with reduced or no tariffs. These benefits have enabled Latin American and Caribbean suppliers to compete more effectively on price, garnering them increased shares of U.S. imports. Yet Peru has steadily increased U.S. shipments and market share with prices above the world average in each of the last 13 years. Imports of Peruvian cotton knit shirts for men and boys have traded for an average 48% premium over the world average price since 1989, and Peru's rank as a foreign supplier of males' knit shirts has climbed from 21st in 1989 to 8th in 2002. The Peruvian products are primarily aimed at the high-end golf shirt market.

**Improving Fortunes of Niche Suppliers to the U.S.**

| Supplier | Product | Price Premium (%)* | Rank 1989 | Rank 2002 |
|---|---|---|---|---|
| Italy | combed yarn | 118 | 15 | 3 |
| Egypt | carded yarn | 14 | 5 | 3 |
| Japan | sheeting fabric | 162 | 10 | 4 |
| Turkey | terry towels | 179 | 22 | 5 |
| Peru | males' knit shirts | 48 | 21 | 8 |
| India | bedsheets | 5 | 23 | 2 |

Source: OTEXA. *Average premium over world average price of U.S. imports, 1989–2002.

After 2004, the relative benefits to suppliers covered by regional trade agreements will be diluted, as all WTO members will be able to trade with one another in a quota-free regime. Suppliers able to compete on more than price may remain viable regardless of such trade policy changes. In the examples cited above, none of the nations benefits from a free trade arrangement, an artificially manipulated exchange rate against the dollar, or a regional trade agreement specific to textiles and apparel, except for Peru under the recent Andean trade preference legislation. Yet each of these suppliers has increased its import share in the U.S. market in its product category. These examples show that suppliers can target specific consumer markets with unique high-value-added products and processes and not be required to compete on a price-only basis in an increasingly global and increasingly crowded marketplace. ■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