

Gauging the Impact of Rising Prices

With the price of cotton recently hitting an all-time high, unrest in the Middle East pushing oil above \$100 a barrel and China's growing middle class making labor more expensive, production costs for sports and recreation apparel, equipment and footwear are on the rise. Along with the increase comes pressure on manufacturers and retailers to pass along the higher costs to the consumer. Industry experts and insiders agree that price increases are all but certain. The key questions are how high manufacturers and retailers can raise their prices and how will consumers react.

An early look at the answers to these questions can be found in a recent consumer study fielded by Leisure Trends Group. A poll of Leisure Trends Group's Most Active Americans Panel (MAAP) conducted earlier this year reveals price increases will catch many active Americans by surprise. Nearly six in 10 (59 percent) respondents are not expecting price increases over the next 12 months for the sports, recreation and fitness products they purchase, and only 19 percent are expecting increases of 10 percent or more.

The news isn't all bleak for manufacturers, however. Active Americans will not blindly chase lower prices. When asked how they will approach their sports, recreation and fitness purchases if prices increase by 10 percent, only 14 percent of Active Americans indicate they will look for lower cost alternatives even if it means making a slight sacrifice in quality or performance. Fifty-four percent state they

will pay the extra money to stay with a brand or product they know and trust. "Consumers are passionate about their outdoor activities, and this passion drives a willingness to spend," says Jim Kelley, managing director of analytical services at Leisure Trends Group. "During the height of the recession we saw sales in the sporting goods sector outperform overall retail sales. People prioritize their active pursuits and I expect we'll see active consumers cutting back in other areas before sacrificing the quality and performance of the sports and recreation products they buy."

That's not to say that price is unimportant. Where quality and performance are comparable, price will be a factor. According to the Leisure Trends survey, 75 percent of Active Americans agree with the statement that they will look for lower cost alternatives only if they don't have to sacrifice quality or performance.

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This will make for an interesting marketplace as brands jockey for position. Brands that do the best job communicating the quality and performance benefits of their products will have the most success in the face of price increases. "Higher prices will drive consumers to look at alternatives," states Kelley. "Lower priced brands that do a good job communicating their quality and performance benefits have a great opportunity capture new customers, while higher-end brands will need to make sure their benefits are understood so consumers can rationalize paying more."

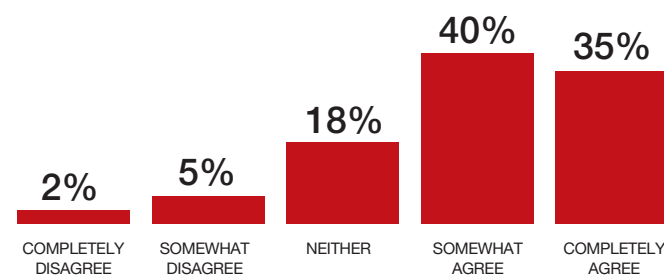
Trend Insight will be paying close attention to the impact of rising prices in upcoming issues. This Spring, Leisure Trends Group will be fielding an in-depth Syndicated Price Elasticity Study. Contact Leisure Trends Group for more information about this study and stay tuned to Trend Insight for updates. ●

> The Big Sacrifice (or not...)



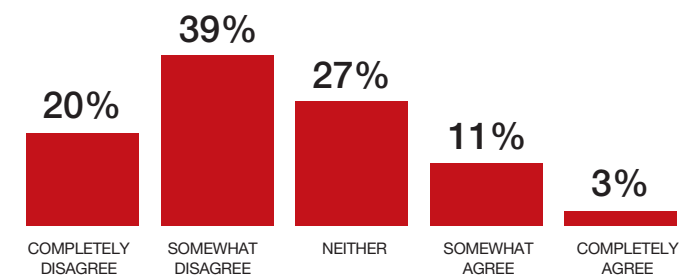
LOWER COST/SAME QUALITY

I will look for lower cost and not sacrifice quality.



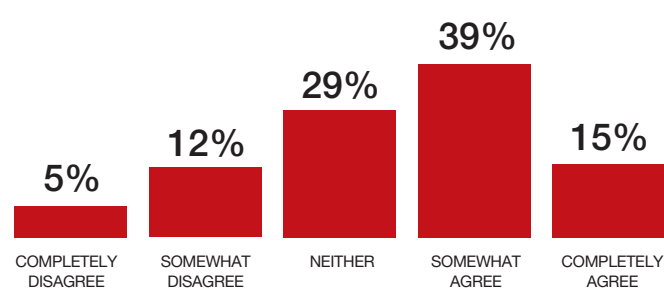
LOWER COST/LOWER QUALITY

I will look for lower cost and will sacrifice quality.



HIGHER COST/SAME QUALITY

I will stay with a brand I know and trust.



12 MONTH FORECAST

Expectations of price change.

