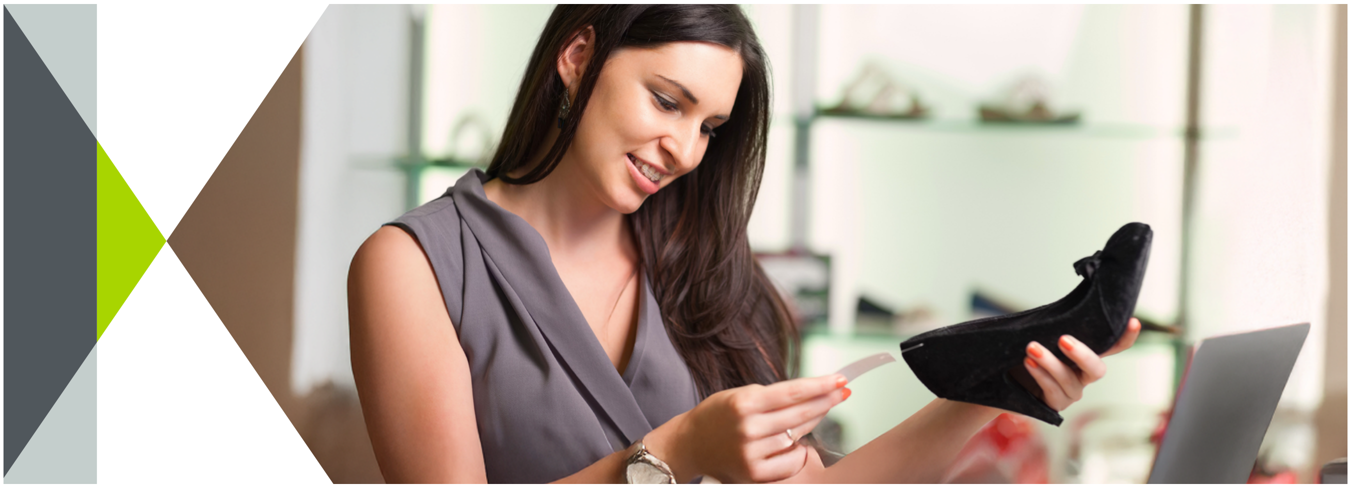


SOLUTIONS

Mind the Gap: How Brands Can Reconnect With Consumers Through Value-Based Pricing

- U.S. apparel prices rose sharply during 2021-24 while overall consumer sentiment fell to multi-year lows, creating a widening price-value gap for shoppers.
- More than half of consumers already feel they pay too much for key apparel categories, yet brands with strong equity continue to demonstrate pricing power.
- When combined with selective cost- and competition-based tactics, value-based pricing helps brands defend margins while reinforcing brand heat and category role.
- Successful players segment assortments, align price ladders with consumer willingness-to-pay, and use price cues and promotions surgically to influence perception rather than pursue blanket pricing approaches.

Context: Apparel prices have gone up as consumers are increasingly constrained

After a decade in which apparel price inflation lagged CPI, COVID-19-era supply-chain shocks, labor and input cost spikes, and new tariffs have pushed U.S. apparel prices continually higher. With over 95% of apparel and footwear manufactured overseas, brands must now assess how to preserve margin amid ongoing uncertainty in the tariff environment.

At the same time, U.S. consumers are increasingly constrained: The University of Michigan's Consumer Sentiment Index remains below long-term historical averages, while over 50% of respondents in a recent L.E.K. Consulting survey have said that they already "pay more than they want to" for everyday apparel and footwear (see Figure 1).

Figure 1

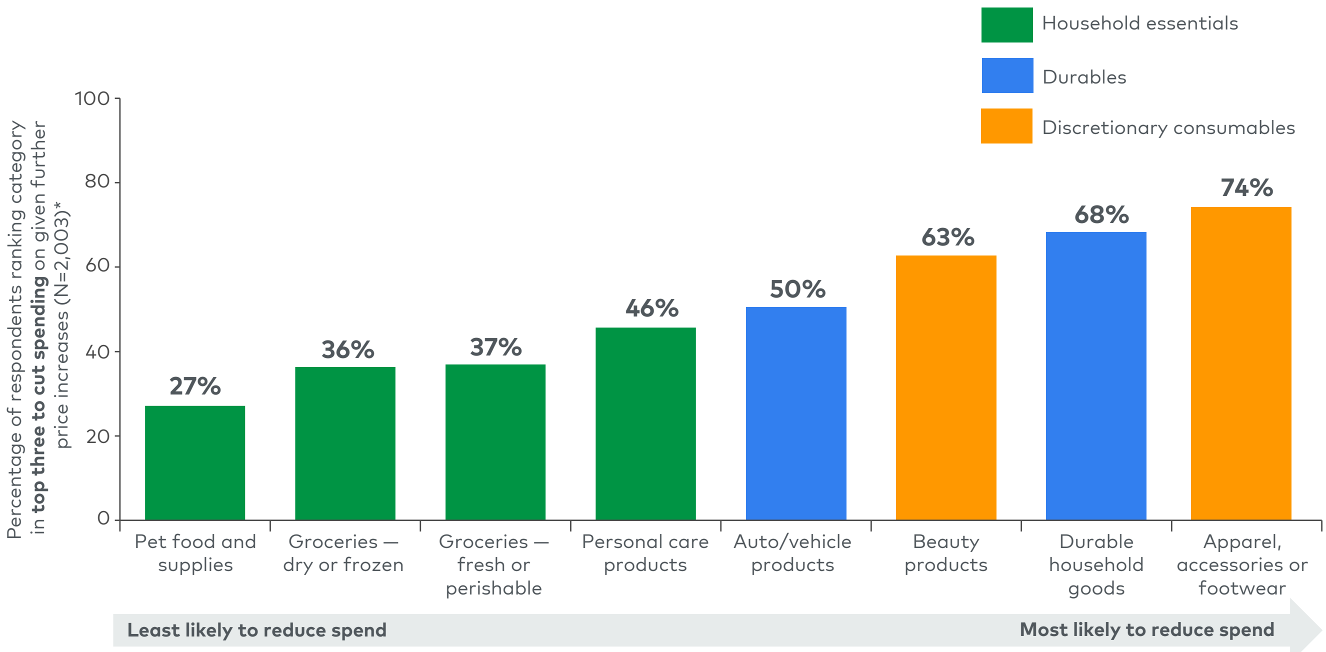
University of Michigan monthly index of US consumer sentiment (January 2022-June 2025)

*Long-term defined as 2000-25
Source: FRED; JP Morgan; University of Michigan; U.S. Bureau of Labor Statistics; U.S. Census; L.E.K. research and analysis

The net result? A clear risk that value-constrained shoppers trade down or defer purchases — apparel, footwear and accessories now rank as the first category consumers cut when recession fears rise (see Figure 2).

Figure 2

Consumer likelihood to reduce spend, by product category (July 2025)



*Survey question: If prices increased across all the categories you typically buy, how would you prioritize the following expenses in terms of your likelihood to reduce spend? (Please give a "1" to the expense that you would be most likely to reduce spend on during a recession, a "2" to the expense category that you would be the second most likely to reduce spend on and so on until you have ranked all of the categories from most to least likely to reduce spend on).
Source: L.E.K. survey, research and analysis

To win back consumers, what's become clear is that apparel brands need to return to value-based pricing.

Now is the moment for value-based pricing

Value-based pricing (VBP), setting ticket prices to reflect the benefits **consumers actually feel** rather than simply adding a cost markup or matching the market, has shifted from progressive theory to commercial imperative. Blanket cost-plus increases driven by input costs are colliding with a consumer who already senses they are overpaying. The most effective brands and retailers understand this and start with the consumer and the products that matter to them, not the costing sheet (see Figure 3).

Figure 3

Brand's portfolio breakdown and mix of pricing strategy

	Core	Comparable	Long Tail
Assortment mix	Core categories and SKUs that define the value proposition of the brand	Highly comparable SKUs that drive price image	Remaining long tail of SKUs that serve a strategic purpose
Pricing approach	Optimize the price-value relationship to capture incremental WTP	Index to existing market price levels to drive price image	Set prices to cover costs to drive simplicity
	Value-based pricing	**Competition-based pricing**	**Cost-based pricing**

Note: SKUs=stock-keeping units; WTP=willingness to pay
Source: L.E.K. research and analysis

Accordingly, a value-based pricing lens reframes the conversation:

- It **defends margin**, where genuine differentiation exists (proprietary performance fabrics, limited-edition collaborations, circularity credentials).
- It **signals fairness** by pegging price to visible brand attributes.
- It **preserves strategic agility** by letting brands flex by channel, cohort or occasion instead of pulling a blunt, across-the-board lever.

Lessons from current winners

Three themes stand out among brands already executing value-based pricing successfully:

1. **Brand heat underwrites pricing power at all price tiers**
   - Ralph Lauren lifted AUR +11% YoY in FY24 while growing its top line, leveraging sustained investment in brand elevation.
   - On Running, a top 10 brand on the L.E.K. Brand Heat Index[1] since 2022, raised 2025 revenue guidance on the back of premium positioning and an ongoing price review.

2. **One size does not fit all**
   - Nike is selectively increasing prices on higher-priced franchises while holding kids' and sub-$100 shoes flat, maintaining entry accessibility.
   - Best-in-class players calibrate differently for carryover versus seasonal lines and actively manage opening price points.
3. **Price itself shapes perception**
   - Brands and retailers have multiple levers to pull to impact the net price to a consumer and should consider all of these when refining their pricing strategy.
   - American Eagle is trimming blanket promotions but layering personalized offers through its loyalty app, preserving value while improving mix.
   - Tactical use of psychological thresholds (e.g., $99) and cadence helps reinforce, rather than erode, perceived value.

Looking ahead

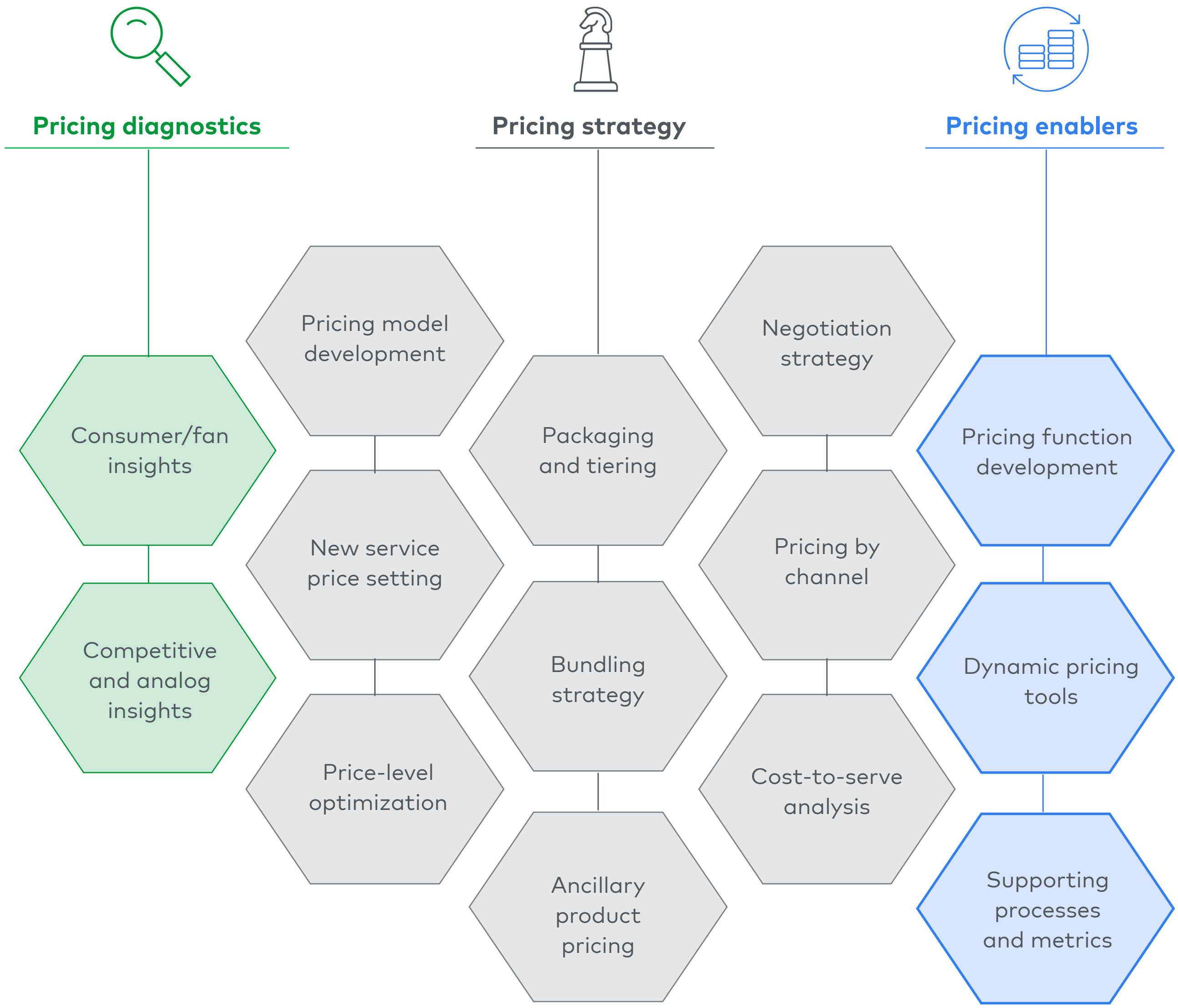
Apparel brands cannot cut cost or promote their way out of the current price-value gap. A **consumer-led value-based pricing approach**, one that distinguishes where the brand truly adds value and prices accordingly, is the most credible path to safeguarding both margin and brand positioning. Brands that move first stand to convert pricing from a defensive necessity amid ongoing volatility into a strategic source of value creation.

How we can help

L.E.K.'s bespoke pricing framework integrates consumer segmentation, assortment analytics and channel economics to uncover hidden pricing power and redeploy it where it matters most (see Figure 4).

Figure 4

Our approach to pricing strategy



Source: L.E.K. research and analysis

Pricing diagnostics uncover unmonetized value by analyzing sales and market signal data, consumer insights and price sensitivity. Competitive benchmarking, analogue comparisons and value driver analysis help prioritize opportunities and define a clear end-state vision with a roadmap to get there. We begin by identifying where pricing can deliver the most impact.

Building on that foundation, **pricing strategy** focuses on aligning architecture with consumer segmentation, product roles and competitive position. We optimize MSRP and elasticity, design price clusters by store or zone and develop bundling strategies that reflect real perceived value. This also includes SKU rationalization, wholesale and markdown planning, and selective expansion across channels, markets or shopper cohorts.

To activate this strategy at scale, **pricing operations** provide the structure and tools. Regional operating models, change management and playbooks guide consistent execution. Teams use pricing rules, value-selling tools and KPI frameworks to stay aligned. We support this with dashboards, ROI calculators, competitive tracking and software guidance to ensure pricing stays agile and precise.

Contact us to discuss how value based pricing can help your organization strengthen resilience and win share in a value-centric market.

Endnotes

[1]LEK.com, "2025 US Footwear and Apparel Brand Heat Index." https://www.lek.com/insights/con/us/sr/2025-us-footwear-and-apparel-brand-heat-index

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About L.E.K. Consulting

We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia-Pacific and Europe — has guided leaders across all industries, from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit **www.lek.com**.