

Gap

Stick to your game

WHAT WOULD YOU BUY? THAT BASIC, RELIABLE PAIR OF khaki pants that will still look fine, if boring, in five years? Or low-cut, hip-hugger jeans that show off your figure, but will no doubt look terribly out of date in six months?

Gap has never quite been sure which pair of pants suits it best. It made its name selling chinos and plain cotton T-shirts, but every few years it has given in to the temptation to update its image and appeal to younger, more fashion-conscious shoppers—usually with disastrous results.

Occasionally, Gap has found itself enjoying the best of both worlds, like the time in 1991 when *Vogue* put ten supermodels on its cover, each dressed in all-white Gap outfits, to celebrate the magazine's one-hundredth anniversary. But, in recent years, it has either been criticized for being too dull, for selling clothes your parents would buy—or for being too edgy and alienating its traditional customers. “I don’t like fashion,” Gap’s most successful CEO, Millard “Mickey” Drexler, once said. You can understand why.

Gap started life as a hippie-style jeans store in San Francisco. Founder Donald Fisher went to exchange a pair of Levi’s he’d bought at a department store that turned out to be an inch too short, but was told he could not. He decided there was a need for a store that stocked a comprehensive range of sizes, so in 1969 he and his wife Doris opened a place they called Gap, after the generation gap (this was the hippie era, after all), advertising “four tons of Levi’s.” By the end of 1970, there were six Gap stores in California, and, in 1976, the company went public though it immediately

found itself in a price war with competitors slashing their margins on Levi's. Gap, in the first of its many boom-bust crises, responded by diversifying into more directional lines under such house-brand labels as Foxtails and Fashion Pioneers. But poor fashion sense saw it forced to sell too much stock at a discount, and Gap began to smell suspiciously like a bargain basement.

In 1983, Fisher hired Mickey Drexler, a New York retailing whiz who had just revamped Ann Taylor, another clothing company that had been in similar trouble.

Drexler's vision was single-minded: at meetings with Gap executives, he handed around plaques with just one word on them: "Simplify." Like any experienced spring cleaner, his first move was to eliminate all the "junk"—the cheap-looking clothes stacked ten deep across the stores.

In its place, he emphasized "essentials": good-quality jeans and T-shirts in a wide range of sizes and colors, designed and manufactured by Gap so it could boost quality while keeping costs low.

Under Drexler's hands-on approach, stores were redesigned to emphasize space and light—the beginning of what would become Gap's trademark look of elegant shelves, polished timber floors, and white walls. Drexler, who became company president in 1987, put new styles on tables in the center of the store, where customers were encouraged to pick them up and try them on, and he developed a list of directives that made sure his sleek, streamlined stores stayed that way. At the top of the list of priorities, as anybody who has worked at Gap will testify, was constant refolding of clothes the customers had messed up. Drexler was often found popping unannounced into stores to see how well the assistants remembered the code.

As Gap jettisoned other brands to focus on its own single house label (a range of upmarket basics that appealed to middle-class buyers reminiscing about the preppie look of their college days), Drexler and Fisher built lines of distribution that enabled stores to

react almost daily to fluctuations in demand, which gave them the flexibility to pull items that weren't selling well. It also meant stores could carry less floor stock: if shoppers saw just two or three sweaters in the same style, they carried an air of exclusivity—even though there were thousands more just a phone call away.

Gap used a similar technique in its advertising to make its basics seem more exclusive. In 1988 it ran a campaign called “Individuals of Style,” a series shot in black and white featuring celebrities wearing their favorite Gap piece. Dizzy Gillespie transformed a basic black turtleneck into the epitome of cool. It was such a successful campaign Gap has relied on carefully chosen celebrities, from actress Kim Basinger to Madonna, to “individualize” its mass-market clothing ever since.

By 1990, Gap had 965 stores, including GapKids, BabyGap, and Banana Republic, making it the second-largest clothing retailer in the United States, behind Levi Strauss. In 1993 Drexler successfully flirted with more fashionable lines to combat complaints that Gap was becoming boring, and also to fend off competitors who were now copying its line of basics.

When Gap launched another brand, Old Navy, in 1994, Drexler reworked the old formula once again, this time offering a line of simplified cotton classics to the masses, often in warehouse-style stores in working class neighborhoods. Old Navy, named after a sign on the side of a building in Paris, became the first retail chain to reach \$1 billion in sales in the first four years of operation.

Gap continued to expand throughout the next decade, when it became not only the default choice for smart casual clothing, but also for workers embracing the dressing-down trend inspired by the dot-com boom. While the geeks in Silicon Valley turned up to work in Nikes and ponytails, elsewhere chinos and polo shirts became an acceptable alternative to suits. In a 1997 stunt, Gap sponsored the first “casual day” at the New York Stock Exchange, dressing 3,500 traders in khakis and white button-down shirts. That year, Robert

Fisher (son of the founders, who still own some 25 percent of Gap), joined Gap as president.

Mickey Drexler's vision was certainly inspired, and more often than not his gut instinct was right. But critics feared his hands-on style was inappropriate, even risky, for a company that had grown as big as Gap, now with close to 4,000 stores.

In 2001, with the dot-com boom foundering and demand for khakis becoming erratic, Drexler steered Gap and Banana Republic towards younger fashions, competing with fast-moving rivals for a fickle teen market. He failed to attract new customers but succeeded in alienating old ones. He later admitted: "When we get tricky, when we get young, when we get gimmicky at the Gap, we kind of lose it."

In 2001 he ditched the teenybopper wear and aimed instead at fashion-conscious twenty-somethings, carrying fewer of the traditional classic lines. Again, a wrong move. Executives told *BusinessWeek* magazine off the record that Drexler's short attention span, decisions based on gut feelings, and "impulsive flip-flopping" had created a culture of uncertainty. In 2001, Gap suffered what Drexler described as its "most difficult year ever:" it had made \$877 million profit in 2000, but actually lost \$7.7 million in 2001, prompting Drexler and Fisher to write in the annual report that Gap had forgotten one of its basic maxims: always keep it simple. The following year, Drexler attempted to spark some of the old magic, once again hiring stars, including Dennis Hopper and Christina Ricci, to promote denim and khaki. Sales lifted a little, but the company had lost its confidence in Drexler, and he stepped down.

Gap's new CEO, Armani-wearing Paul Pressler, was a more traditional choice. Hired from Disney, where he ran the theme park business, he was to be a CEO whose experience lay in management, not ideas for new T-shirts. He announced plans to step up consumer research and leave specific decisions about garments to the

brand managers. Initially he concentrated on cost-cutting and improving marketing and operations across the 3,000-plus Gap, Old Navy, and Banana Republic stores. Employee numbers have dropped under his charge but profits doubled between 2002 (\$476 million) and 2004 (\$1.1 billion). He has continued Drexler's lead in hiring celebrities to promote the product, including Missy Elliot and Madonna, though he raised eyebrows when Gap replaced *Sex and the City* star Sarah Jessica Parker in 2005 (who was about to turn forty) with teen songstress Joss Stone: which age group was Gap actually aiming at? Meanwhile Pressler announced a new brand called Forth & Towne that aimed at the thirty-five-plus customer; its name, Pressler said, evoked a sense of place. Sooner or later, though, he will need to replace Drexler's vision with a new one and, eventually, confront Gap's demon: fashion.

NOTES

"I don't like fashion . . ." Bechett, Andy. "How We Fell into the Gap," *The Independent*, 11.28.93.

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