

Gap

By Kristi Weldon

Gap maintains focus for growth

Gap Inc. had yet another exemplary year, continuing its long-term leadership within the apparel market. The Gap, GapKids and babyGap continue to grow as the new GapBody category pushes into the intimates market, with Banana Republic and Old Navy rounding out the economic spectrum.

Despite management shake-ups and falling numbers, Gap Inc. remains the one to watch for business and marketing practices. More and more apparel manufacturers are selling direct and sourcing outside — an approach that Gap Inc. has used for years.

So how's it paying off? Last year, net sales rose 29% to \$11.64 billion, a reflection of increased real estate and existing store expansion. Net income rose 37% to \$1.13 billion, reportedly due in part to lower occupancy costs as a percentage of sales. While many brokerage firms have downgraded the stock in recent months, a core of die-hard, Gap-loving analysts hold on.

The team

Changes began in July of last year with the hiring of Heidi Kunz as executive vice president and CFO. Then came Steve Jobs, CEO of Apple Computer and Pixar Animation Studios, who brought his legendary expertise in product innovation and marketing to The Gap Inc.'s board of directors in September. In October, Robert Fisher resigned as president of Gap division and executive vice president at corporate. This March saw the departure of Jeanne Jackson from her post as president of Banana Republic and online divisions in a move to Walmart.com. Finally, in an April management re-organization, Ken Pilot was appointed president of Gap brand.

Highlights

Over the past year, Gap Inc. continued groundbreaking practices across the board. In August 1999, it secured a deal with America Online to give The Gap, Old Navy and Banana Republic brands premier placement in the new Shop@AOL marketplace, which is expected to draw many of

the ISP's 46 million subscribers.

In true Gap form, the flagship division launched a new advertising campaign in March. Ads use the Jets-versus-Sharks (read: khakis-versus-jeans) format from "West Side Story." "The new colors and styles ... were the starting point for the campaign," said Jim Nevins, executive vice president, Gap global marketing. "And 'West Side Story,' an American classic, is the perfect way to tell the story of these vibrant new clothes."

The corporation continues to maximize its "clicks-and-bricks" strategy with the introduction of GapMaternity and pants@gap.com. GapMaternity can test products using sales data for micromarketing by segment and region — and if the strategy works, babyGap stores could very well start popping up everywhere and attaining the kind of ubiquity normally associated with Starbucks.

"Pants@gap.com allows us to offer more sizes, styles and colors than we can within the four walls of every Gap store," said Ron Beegle, executive vice president, Gap Inc. Direct. "We want to make it as easy as possible for customers to find the perfect pair of pants, whether it's in our stores or online." This now includes 125 size/length options for men and 50 options for women.

Conclusion

"Our performance begins and ends with satisfying our customers," says Millard ("Mickey") Drexler, president and CEO of Gap Inc. "That focus generated solid results in 1999, on top of record growth in 1998, and drove double-digit earnings increases for each of our brands.

We also reached new customers and expanded market share by opening more than 500 stores worldwide and broadening our brands online. Our passion for serving customers better every day will continue to drive quality growth for Gap, Banana Republic and Old Navy."

The Gap, GapKids, babyGap, Banana Republic, and Old Navy store locations total 5,096 in the United States and 768 in other global locations. Gap Inc. has more than 110,000 employees.

