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Retail

Gap Not Yet in Vogue

By [Marc Lichtenfeld](#)

Senior Columnist

5/2/2007 1:27 PM EDT

URL: <http://www.thestreet.com/newsanalysis/retail/10354366.html>

The few **Gap** (GPS) bulls will happily point to the May issue of *Vogue* magazine, where the retailer's new designer line is featured on the cover, as a sign that flailing brand is becoming fashionable again.

But a funky white T-shirt is not going to be enough to fix the company.

Gap recently introduced a line of white shirts designed by three emerging designers -- Doo.Ri, Rodarte and Thakoon -- as an effort to boost its fashion profile. But industry watchers aren't convinced that these designers and the *Vogue* cover are anything more than a nice distraction from what ails the company in its ongoing sales slump.

Gap's problems lie deeper. Its products stay too long on the shelves, and they just aren't fresh enough. Mark Lilien, a consultant with Retail Technology Group, questions whether Gap has done enough market research.

"**Coach** (COH) doesn't just have good designers and management," he says. "Before they make a commitment to a certain look, they know it's going to sell."

That brings up a conundrum for Gap. As I outlined in my recap of the company's fourth-quarter earnings, Gap doesn't know who its customers are. It's tough to design and test clothes if you're not sure which demographic group is most likely to walk through your doors.

Too Many Speed Bumps

Lilien says Gap needs to be reorganized so that it no longer suffers prolonged periods of underperformance.

"**Procter & Gamble** (PG) doesn't go through multiyear slumps, hoping for one new product."

Along these lines, one area that needs fixing is Gap's supply chain. It takes Gap roughly 18 months to turn over its merchandise pipeline, according to Stevan Buxbaum of the asset appraising and consulting firm Buxbaum Group.

That's way too long, says Camille Schuster, president of Global Collaborations, an Escondido, Calif., consulting firm.

"It's not just getting the right clothes, but getting them into the stores in a timely fashion," she says. "If that process is not in place, it won't work."

Schuster believes an increased pace of delivery can be accomplished, as evidenced by European retailer Zara, which is owned by Spain's Inditex. Zara can get a new concept into stores in as little as two weeks.

According to Zara's press materials: "Information travels from the stores to the design teams, transmitting the demands and concerns of the customers. The vertical integration of activities (design, production, logistics, and sales in the company's own stores) means Zara is flexible and fast in adapting to the market. Its model is characterized by continuous product renovation; new articles reach the stores twice a week."

While no one expects a behemoth like Gap to be as nimble as a smaller competitor like Zara, Gap must improve the process of getting new concepts to stores if it will be successful.

More Sizzle, Less Steak

Emmy award-winning stylist Brenda Cooper says, "Gap is a fantastic brand. It can be revived." However, recent trips to stores in Los Angeles left her feeling flat due to unimaginative displays and unexciting color palettes.

"Fashion is a visual medium," she says. "There has to be an emotional reaction and it's just not there [at Gap stores] ."

Cooper points to **Target** (TGT) as an example of a company that successfully changed its image -- and it wasn't just the designer clothes that changed.

"Target brought in international designers but also a campaign that excites customers. Now people who shop at **Neiman Marcus** also shop at Target."

She suggests Gap get "edgier" both in its clothes and in the stores.

As Cooper implies, there is still a lot of brand equity in the Gap name, despite the recent doldrums. I fully expect shoppers to return to the stores once the clothing on the shelves are more closely aligned with consumers' wants.

Gap's stock is the ultimate contrarian play. It reminds me a bit of **General Motors** (GM) about a year ago. Back then, you couldn't give GM shares away.

At some point, Gap's ship should start to turn in the right direction. When it does, it could be the stock buy of the year.

But like most contrarian ideas, timing is critical. For Gap, the timing's just not yet right to buy shares.

In keeping with TSC's editorial policy, Lichtenfeld doesn't own or short individual stocks. He also doesn't invest in hedge funds or other private investment partnerships.

Marc Lichtenfeld was previously an analyst at Avalon Research Group and The Weiss Group and a trader at Carlin Equities. He holds NASD 86, 87, 7 and 63 licenses. His prior journalism experience includes being a reporter/anchor for On24 in San Francisco and a managing editor of InvestorsObserver, a personal finance Web site. He is a graduate of the State University of New York at Albany. He appreciates your feedback; [click here](#) to send him an email.
