

MEMORANDUM

7 September 2006

To: Rick Stevens

From: Brian Hentz

Subject: Assignment

I understand and respect your decision to gather some feedback from me and my cohorts as you make a decision regarding Gap's expansion plan. I've read up on the case recently, and I think you'll find this analysis addresses your major concerns. Specifically, this memo offers an overview of Gap's pressing problems and provides some marketing strategies for addressing these problems.

While Gap recognizes the merits in penetrating select international markets, the firm also is acutely aware of both internal and external forces that impede these expansion efforts: (1) online purchasing options have made Gap vulnerable to fickle shoppers' fashion proclivities. While Gap historically could set the proverbial "bar" in setting seasonal fashions, online shoppers—global or otherwise—are in a unique position to change fashion preferences after Gap has established inventories for its retail seasons, making the firm potentially less responsive to its customers' needs. Also, (2) Gap needs to demonstrate concerted efforts in building brand loyalty in the burgeoning European and Japanese markets. Although Gap's casual, Western wear has received kudos for comfort and style, Gap faces much more stiff competition from established brands in these markets. If Gap wishes to penetrate these markets, then Gap needs to create an impetus for broadening these consumers' consideration sets.

Further, (3) Gap is finding it difficult to compete with low-cost producers in Asia. In fact, these Asian manufacturers have such a stranglehold on European markets (and France, in particular) that Gap finds it increasingly difficult to make a demonstrable dent into these markets. Case in point? Asian countries have 31.7% of the French market for women's apparel. Also, (4) Gap must find some creative solutions for curbing Japanese companies' animosity towards American firms. This significant barrier to entry is particularly troublesome for Gap, when one considers that Japan is arguably the largest market for US-made apparel, with total demand for apparel reaching \$70 billion.

While these problems offer concerted challenges, Gap can proceed with international expansion and reap significant profit margins by following these suggested proposals. First, (1) Gap should market its Banana Republic brand—its premium brand—more forcefully in Germany and France, while simultaneously placing more of its marketing emphasis on its lower-priced brands in Japan. One thing Gap can't afford to do is cling to a monolithic representation of the "international market" and promote a marketing mix that worked well in the US abroad and falsely assume that this mix will result in similar successes. Because Gap has had difficulty cultivating brand awareness and convincing customers to switch to their products from more established brand names in France, Gap should recognize that certain markets—such as Germany and France—are much more willing to pay premium prices for quality, Western wear.

MEMORANDUM

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From: Brian Hentz
Subject: Your Request for Information on the Gap Expansion

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Problems

► Online purchasing options have made Gap vulnerable to fickle shoppers' fashion proclivities. While Gap historically could set the proverbial "bar" in setting seasonal fashions, online shoppers—global or otherwise—are in a unique position to change fashion preferences after Gap has established inventories for its retail seasons, making the firm potentially less responsive to its customers' needs.

► Gap needs to demonstrate concerted efforts in building brand loyalty in the burgeoning European and Japanese markets. Although Gap's casual, Western wear has received kudos for comfort and style, Gap faces much more stiff competition from established brands in these markets. If Gap wishes to penetrate these markets, then Gap needs to create an impetus for broadening these consumers' consideration sets.

Solutions

► Gap should market its Banana Republic brand—its premium brand—more forcefully in Germany and France, while simultaneously placing more of its marketing emphasis on its lower-priced brands in Japan. One thing Gap can't afford to do is cling to a monolithic representation of the "international market" and promote a marketing mix that worked well in the US abroad and falsely assume that this mix will result in similar successes. Because Gap has had difficulty cultivating brand awareness and convincing customers to switch to their products from more established brand names in France, Gap should recognize that certain markets—such as Germany and France—are much more willing to pay premium prices for quality, Western wear. Likewise, the Japanese currently tend to demand cost-efficient "value," and Gap's Old Navy brand seems more suited for this different set of consumer values.

► Gap should also use its e-commerce presence as an interactive tool to sell a Western experience that transcends apparel in and of itself. By courting its premium customers (Germany, France) with a more interactive web experience (soliciting reviews, promoting special sales), Gap will be positioned to stay ahead of fickle consumers who tend to change fashion preferences too quickly.

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Gap's Critical Problems and Issues

While Gap recognizes the merits in penetrating select international markets, the firm also is acutely aware of both internal and external forces that impede these expansion efforts:

► **Online purchasing options have made Gap vulnerable to fickle shoppers' fashion proclivities.** While Gap historically could set the proverbial "bar" in setting seasonal fashions, online shoppers—global or otherwise—are in a unique position to change fashion preferences after Gap has established inventories for its retail seasons, making the firm potentially less responsive to its customers' needs.

► **Gap needs to demonstrate concerted efforts in building brand loyalty in the burgeoning European and Japanese markets.** Although Gap's casual, Western wear has received kudos for comfort and style, Gap faces much more stiff competition from established brands in these markets. If Gap wishes to penetrate these markets, then Gap needs to create an impetus for broadening these consumers' consideration sets.

Proposed Action Plans for Gap

While these problems offer concerted challenges, Gap can proceed with international expansion and reap significant profit margins by following these suggested proposals:

► **Gap should market its Banana Republic brand—its premium brand—more forcefully in Germany and France, while simultaneously placing more of its marketing emphasis on its lower-priced brands in Japan.** One thing Gap can't afford to do is cling to a monolithic representation of the "international market" and promote a marketing mix that worked well in the US abroad and falsely assume that this mix will result in similar successes.

► **Gap should also use its e-commerce presence as an interactive tool to sell a Western experience that transcends apparel in and of itself.** By courting its premium customers (Germany, France) with a more interactive web experience (soliciting reviews, promoting special sales), Gap will be positioned to stay ahead of fickle consumers who tend to change fashion preferences too quickly.

I trust that this information provides you with the details you need to make an effective presentation. Please don't hesitate to reach me at 515.555.5555 or bshentz@iastate.edu if I can offer future assistance.

