

# Gap in strategic management analysis of gap inc

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Gap, the company, has a large network of physical locations. At the beginning of February 2008, the company had 3,167 stores, including 1,249 in the US and 1,918 in international locations such as Canada, the UK, France, and Japan. Gap has also entered franchise agreements to operate Gap stores or Gap and Banana Republic stores in Singapore, Malaysia, United Arab Emirates, Kuwait, Qatar, Bahrain, Oman, Indonesia, and Korea. Comparatively, Gap's competitor, Abercrombie & Fitch Co, operated 1,035 stores in the US, Canada, and the UK. Another competitor, Aeropostale merchandise operates 828 stores. Gap's large physical network of stores enhances the company's sales penetration and gives it a competitive advantage. Building financial strength Gap's cash flow from operations reported a significant growth in FY2008. The net cash provided by the operating activities increased by 66% from \$1,250 million in FY2007 to \$2,081 million in FY2008. The company's operating margins increased from 7.69% in 2007 to 8.34% in 2008. The strong cash position would boost the company's dividends. Unlike Gap, its competitors recorded a decrease in net cash from operating activities. For instance, Aeropostale's cash flow from operations decreased from \$177.4 million in FY2007 to \$171.08 million in FY2008. Similarly, American Eagle Outfitters' cash flow from operations decreased from \$749.3 million in FY2007 to \$464.3 million in FY2008. Gap's strong cash position provides the company with a strong financial base to pursue its expansion plans.

### **Strong financial leverage**

The gap is financially leveraged to a significant extent. The company's long-term debt to shareholders' equity ratio was 1.27 in FY2008 compared to 3.

63 in 2007. This is primarily due to a decrease in long term debt in recent years. The company's long term debt has been reduced at a CAGR of 70% during 2005 from \$1, 886 million in 2005 to \$50 million in 2008. The company's capability of paying its debt is reflected through its high-interest coverage ratio. The ratio increased from 29. 88% in 2007 to 50. 58% in 2008. Low debt and high-interest coverage ratio provide the company with the flexibility to ramp up its operations. Further, Gap has strong financial leverage compared to competitors. Macy's, one of the Gap competitors, recorded an increase in long term debt at a CAGR of 23. 3% from \$3, 151 million in 2004 to \$9, 087 million in 2008. Reduced long term debt eases the debt burden and gives the company greater scope for growth.

### **Weaknesses**

The weak performance of comparable stores. The company witnessed a decline in revenues from comparable stores of Gap and Old Navy brands. Comparable store sales compare sales of stores that have been open for a year or more. Gap North America witnessed a fall in comparable stores sales by 5% in FY2008 over FY2007 and Old Navy North America recorded a decline of 7% in the same period. The primary reason for the decline was the company's weak product assortment at the stores. Due to the decline of comparable store sales from Gap and Old Navy brands, the company's total revenues declined by 1% in FY2008. Comparatively, American Eagle Outfitters witnessed an increase in comparable-store sales by 1% in FY2008. Another competitor, Aeropostale, recorded an increase in comparable-store sales by 3. 3% in the same period. A weakness in comparable-store sales

indicates the inability to retain customers and could lead to a loss of market share.

### **Geographic concentration**

Gap remains heavily dependent on the US. The company derived over 83.6% of its revenues from the US in FY2008. The company has a weak presence in other geographies, including Canada, Europe, and Asia. In contrast, competitors such as Hennes; Mauritz (H; M), Levi's, Tommy Hilfiger have more globally diversified operations, which provide them with a better revenue profile. The geographic concentration of operations increases the company's vulnerability to adverse market conditions in the US and limits growth opportunities.

### **Opportunities**

Growth in online retail spending Online shopping is steadily growing in popularity in the US. Retail e-commerce sales in the US recorded totaled \$127.7 billion in 2007 and are expected to grow 14.3% at \$146 billion in 2008. Further, sales will increase at an 11.3% average annual growth rate during 2007-12.