

The gap inc



1. Executive Summary

The Gap Inc, is an American clothing and accessories retailer based in San Francisco, California, and founded in 1969. It is one of the largest global specialty apparel retailers, with fiscal year 2009 revenues of \$14. 2 billion. It operates five of the most recognized apparel brands in the world — Gap, Banana-Republic, Old Navy, Piperlime and Athleta. Gap provides casual apparel, accessories, and personal care products for men, women and children with more than 3, 000 stores around the world.

Although this industry has been saturated and in the mature stage of the industry lifecycle as well as the high competition with industry trends of value driven consumers; the company still leverages its large network of physical stores to improve margins, enhance its brand image and target new markets. With more than 300 stores outside the U. S., Gap is well known, and still has plenty of room to grow globally.

This business proposal is to evaluate the feasibility of developing Gap Inc.'s Greater China Market by analyzing both internal and external environments of the company. Porter's Five Forces model is also applied to analyze the attractiveness of the industry. Industry and market analysis shows the growth rate in both retail sales and spending power of Chinese people which strongly support the feasibility for the company expanding to China. After summing up the findings and analysis, ways are suggested on how Gap Inc. enters China market and recommend the most suitable retail strategy should the company apply in China.

2. Industry and market analysis

The external environment

For the past two years, the world saw a massive change economically and environmentally. The change impacted almost everything it can possibly have an effect on, from shifting economical powers to changing industry trends. Although the world is still going through a tough period, analysts are still very much optimistic about the world's economy as a whole, and there seem to be chances everywhere for all industries, including the apparel industry.

The ever-changing economic environment and government efforts have made China an increasingly dominant participant in the global textile and apparel trade. Chinese textile and apparel products now became an important segment of apparel and textile markets of the world. The country has earned a competitive edge thanks to its ever-booming economic environment, government support, tariffs and tax incentives, SEZ culture, and low labour and raw material cost.

The changing retail industry environment, caused by the improvement of purchasing power and increasing influence of Western culture, is also transforming the domestic apparel market of China. The growing of middle class, raising number of the youth population and rapid globalization of culture are all reasons for the increasing demand for branded apparel in the domestic market, especially the ones from Western societies. This is attracting both foreign and domestic companies to realize the importance of the rising demand of branded segment products.

According to the National Bureau of Statistics (NBS), the total retail value of clothing, shoes, hats and textiles by wholesale and retail enterprises above designated size in 2008 grew nominally by 25.9% year-on-year to achieve 377.55 billion yuan. In 2009, the nominal retail value growth slowed to 15.5% year on year but it is far ahead when comparing with the U. S. retail sales growth of 2.7%. We can see that there is a larger room for Gap Inc. to expand in China.

In 2008, per capita disposable income of urban households increased by 8.4% in real terms to 15,781 yuan. Urbanites on average spent 10.4% of their annual expenditure on clothing (1,166 yuan). According to the NBS, in the first to third quarter of 2009, per capita annual expenditure on clothing per capita was 923.8 yuan.

On the other hand, the Hong Kong Trade Development Council (HKTDC) has conducted a Survey on Garment Shoppers in Major Chinese Cities on apparel consumption in 13 major cities namely Harbin, Shenyang, Tianjin, Hangzhou, Nanjing, Beijing, Chengdu, Dalian, Guangzhou, Shanghai, Wuhan, Chongqing and Ningbo in China. Among the 3,250 respondents, the average spending on apparel from the fourth quarter 2007 to fourth quarter 2008 was 2,758 yuan. The average spending in each city was directly proportional to the level of disposable incomes in that city. We can see that the continuously increasing spending power of Chinese consumers and the affordability of mid- to high-end apparel segments in major Chinese cities

Factsheet (The Datamonitor Group)

- The Chinese footwear market generated total revenues of \$11, 683. 1 million in 2008, representing a compound annual growth rate (CAGR) of 10. 7% for the period spanning 2004-2008.
- The Chinese men’s-wear market generated total revenues of \$37. 9 billion in 2008, representing a compound annual growth rate (CAGR) of 7. 1% for the period spanning 2004-2008.
- The Chinese women’s-wear market generated total revenues of \$29. 4 billion in 2008, representing a compound annual growth rate (CAGR) of 8. 8% for the period spanning 2004-2008.
- The Chinese apparel retail industry generated total revenues of \$84. 9 billion in 2008, representing a compound annual growth rate (CAGR) of 7. 9% for the period spanning 2004-2008.
- The Chinese children’s-wear market generated total revenues of \$17. 6 billion in 2008, representing a compound annual growth rate (CAGR) of 7. 9% for the period spanning 2004-2008.

Today, China’s apparel market is the world’s third largest, only behind the US and Japan. Going through the undeniable market expansion, Chinese consumers are becoming more fashionable and brand-conscious, especially among the urban young adults. Many of them praise international brands, and according to a McKinsey report on apparel in China, half of them agreed that “ foreign brands have higher quality than local brands,” comparing to an average of 15 percent across all other age groups.

Growing awareness of private labels has become more and more obvious. Private labels have become a powerful weapon for apparel retailers. For the purpose of differentiating themselves from the crowd, as well as defining a

strong definition on their brand image, giant retailers have started to emphasize more on their own labels. World-known retailers such as Marks & Spencer, H&M, Palmers, Orsay, Pimkie, Springfield and Kookai all have their own private labels. As consumers desire to have private labels on what they wear every day, the doors are also open to the supply of these clothing items to private label owners.

5 forces analysis

Bargaining Power of Suppliers

Suppliers to the retailers are, by definition, the manufacturing wholesalers. They tend to have rather low bargaining power, as compared to retailers, for several reasons:

1. There are many suppliers in the textile and apparel industry, especially China is the world factory. In essence, there is very little differentiation among the suppliers which makes suppliers' bargaining power non-existent.
2. The raw materials such as leather, rubber and cotton are commodity items and are available enough in the market place.
3. Some well-known companies have a definite advantage and power over their suppliers. These suppliers become dependent on these firms and eager to supply as their means to survival.
4. Yet another force decreasing the power of the suppliers is the relatively low switching costs for retailers. Firms are able to switch between suppliers quickly and cheaply, due to the networks of cheap labor on various continents.

Bargaining power of buyer

The emergence of foreign brands and stores saw a dramatic change in buying habit and environment for shoppers in China. As we all know, the traditional Chinese buying habit was all about one word, bargain. Upon the emergence of foreign brands and stores, brought the more westernized business style of speciality retail store, which is obviously what shoppers in China have to adapt to. Although there is an increasing fierce competition, with more brand names and labels entering the China market every single day, buyers' power is still being weakened. A major reason to this is the increasing capability of the Chinese people to afford exchanging money for quality, instead of blindly looking to low price.

Threat of potential new entrants

In China, the apparel industry is in late growth stage according to the industry life cycle diagram. In the growth stage, the risk is moderate and the market is more open than the past. In this case, Gap can easier to handle and to bear the business risk. According to the data from HKTDC (2009), it showed that the apparel industry grew so quickly just below the jewellery industry. It increased 25.90% in 2008.

Besides, the consumer behaviour of the whole apparel industry in China changed a lot. It mainly separates into two areas. One is those people who mainly focused on buying the high-end fashion clothes, while the other one is focusing on buying low-cheap clothes. However, as the economic environment becomes better, those people who like buying high-end fashion clothes increases rapidly.

On the other hand, as the market nearly reach maturity, each company is fighting for market share and so the market becomes more fragmented.

Therefore, the threat of potential new entrant is low.

Threats of substitute products

The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases.

Substitutes are a threat because they are in an attractive alternative product or service, which customers can easily shift to if there is low switching costs.

The availability of substitutes invites customers to make price, quality and performance comparisons. Competitively priced substitutes impose a maximum value on prices relevant industry can charge for its products or services. Gap, which is a firm in specialty apparel or leisure and casual wear compete with firms that provide other substitutes such as athletic footwear and apparel, for example Nike and Adidas. The well-known sporting brands offer not only fashion but also technical functions sporting goods at an attractive price. Many younger consumers are turning to sporting good textiles and footwear as substitutes for other types of casual dress.

The threats of substitute products are high in this industry since there is intense competition, fashion trends, and price conscious consumers that have slowed growth of the company. This creates difficult situations for company to produce a brand image that appeals to consumers that want to shop for cheaper apparel, but also apparel that has quality.

Extent of competitive rivalry

Firstly, to talk about the competitive rivalry, the degree of concentration is needed to be considered. The degree of concentration of apparel industry in <https://assignbuster.com/the-gap-inc/>

a China market is to be said as “ monopolistic competition”. There are many competitors and the size of competitors is varied. Also, the nature of product of each retailer is different, they target on different segment of customers. For the China market, the extent of competitive rivalry is relatively high because the competitors of Gap are nearly the same size and they also want to gain share over the others. The competition thus increases and profits fall. However, Gap is trying to differentiate products and their services among the industry and so the competition is not essentially price-based. They want to ensure customer loyalty.

3. 3C Analysis

Company

Gap, Inc retails casual apparel, accessories and personal care products for men, women and children through more than 3, 000 stores in the US and other countries. It has a strong brand and stable revenues by its large network of physical stores. However, increasing competitions due to easier enter that affect Gap’s margins and market share. The analysis of Gap are as below by using SWOT.

One of the major strength of Gap, Inc is the well-known brand. It has a long history of 40 years. It is an established name and success in its sector of clothing retailers market. The other strength of Gap is its global approach; it is recognized all over the world. In 2009, the company had 3, 095 stores, including 2, 576 in the US and 519 in other countries like Canada, UK, and Japan etc. Gap’s large network of physical stores enhances the company’s sales and be the competitive advantage.

Then, Gap has been able to sustain such a large supply chain and still been able to maintain enough inventories. It makes goods from different developing countries including Honduras, India and others help the company to reduce the labor costs.

Although Gap has excelled in the field of apparels, it still has some weaknesses need to face. It has not been able to maintain a fashion identity, relatively less differentiated fashion product. Gap also remains heavily dependent on the US. Geographic concentration of physical stores increases the company's weakness to contrary market conditions in the US and limits growth opportunities. Gap North America proved that a fall in comparable stores sales by 7% in FY2009 over FY2008.

Moreover, competitors such as Hennes & Mauritz (H&M) have more globally diversified operations. These provide them with a better revenue profile and affect Gap's margins and market share.

After excelling in an industry, Gap can develop its business in e-commerce. For example, it has already started an online store which is increasing in popularity. 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 grew 14. 3% at \$146 billion in 2008.

In addition, Gap run brand Banana Republic in nearly 80 franchise stores internationally such as in Japan. Through franchising, it can help Gap in expanding its business and any further focus would bring strong partners to take its brands to the new markets. Furthermore, the increasing cost of labor

in other countries like US and decline in value of US Dollars can decrease its competitiveness.

Customers

Gap is the base for the success of the other segments, including Gap, Old Navy, Banana Republic, Piperlime & Athleta. Gap Inc. tries to serve different types of customer by these five brands. It offers extensive selections of classically styled casual apparel at moderate price and targets wide range of customers and provide products such as apparel, accessories, personal care products for men and women, teen through adult, and maternity apparel.

Old Navy chain is designed to appeal to younger generation of customers by emphasizing “ fun, fashion, and value” through a store experience that delivers “ energy and excitement.”

Banana Republic stores try to convey a more sophisticated image for high-end customer, whereas appeal to a broader midrange of customers.

Piperlime is the online store which sells only shoes that are not affiliated with the Gap brand. The product of Piperlime is shoes for all ages of the people.

Athleta is a line of athletic gear and be acquired in 2008 by Gap. Athleta reaches customers via catalogs and an online store, which will be incorporated into Gap’s “ universality” web platform as the fifth online channel in Gap’s operations.

Competitors

The status of global specialty apparel industry is falling into mature stage of its lifecycle. There are many real and online stores which contribute to the

over-saturation of the industry. The environment of global specialty apparel industry is highly competitive and consumer driven. Globalization and new technologies have allowed consumers to have more access to fashion. As a result, consumers are changing, competition is fierce, and companies are evolving to meet these demands. Gap Inc. competes with national and domestic department stores, specialty and discount store chains, independent retail stores as well as online businesses that market similar lines of merchandise.

Direct competitors

The leading competitors of Gap Inc. include cheap-chic European retailers Zara of Spain and H&M of Sweden. Both of them offer same range of products with a more trendy style.

Zara is famous for developing cut price interpretations of catwalk styles, the brand offers seasonal outfits for working women and men, offers prices suitable for both wealthy and non-wealthy consumers. More than half of its stores operate outside Spain and there are already 35 stores opened in China. Over 50% clothes, especially high-fashion items, are made in Zara's own Spanish factories, close to head office and the goods are centralized distributed from its Spanish distribution centers distributed globally. Zara is known for its quick response in the fashion industry — from forming design concepts to putting the products on shelves, Zara needs only ten to fourteen days on the average while other apparel companies usually spend six to nine months. In addition, it pays attention to the diversity of styles and offers more choices to customers.

Even less expensive than Zara, Hennes and Mauritz (H&M) offers everyone from teens to baby boomers the opportunity to wear off-the-runway inspired pieces. H&M entered China in 2007; it offers inventive design and a relatively lower price than Gap. H&M carries trendy clothing choices that they have designed based on the melding of international apparel tastes. It doesn't own any factories it sources more than 60% of its products in Asia and builds distribution centers in their international locations in order to cut down lead times and potential logistical costs.

A simple product market positioning map

Indirect competitors

China's apparel market is highly fragmented. Domestic brands dominate in the mass market. Domestic players generally have more extensive sales channels especially in lower-tier cities and the rural market and they have more competitive pricing in general. According to the aforementioned HKTDC survey, 51.1% of respondents have purchased domestic brands in the past year, much more than Hong Kong brand (15.8%) and foreign brands (27.4%).

Although Gap Inc. is facing high competitions, most of its rivals target at offering low-priced and fast moving products to consumers; China's free spenders may be looking for something else. Young adults want clothes that aspire to luxury. When its consumers buy foreign brands, they want what they can't find at home. Gap is distinctively differentiating itself from its rivals to provide its consumers the middle-class specialty apparel with classic American styles.

4. Conclusion

Since China opened the door to the world, many companies entered the market realizing the potential of it. Competition became fierce as the market constantly become more mature. After our study and examination on the apparel industry of China, we found that with increasing competition, the Chinese market still has great potentials. Many brand names have already started entering the market and it will only be the matter of time that China's market becomes the world's largest. Early entry will help Gap to secure its position in the near future as more competitions are bounded to enter the market.

5. Recommendations

Entry strategy

According to datamonitor. com, Gap has franchising agreements with unaffiliated franchises to operate Gap and Banana Republic brands in stores in nearly 80 franchise stores across the world. For example, in 2008, the company signed an agreement with Marinopoulos Group, one of Greece's leading retail, commercial and industrial groups, for exclusive rights to operate Gap and Banana Republic stores in Greece, Romania, Bulgaria, Cyprus and Croatia.

In order to enter China market, franchising is needed to be used because this is the only way to develop the business quickly and expansion is the only way a company can realize maximum profits. There are many advantages of using franchisee in China. Franchisees are given the necessary training to start his business and eventually run it smoothly. Because the franchisee is buying a proven business concept, the business risks involved are largely

minimized. The parent company has already resolved most, if not all, of the problem areas in its systems and procedures.

China has the most franchises in the world but the scale of their operations is relatively small. Each system in China has an average of 43 outlets, compared to more than 540 in the United States. Today, in China, the Franchise Law is much clearer by virtue of the 2007 law. The laws are applicable if there are transactions involving a trademark combined with payments with many obligations on the franchiser.

The franchisor must meet a list of requirements for registration, among which are: (the following information adopted from FranchiseUpdate. com)

- the standard franchise agreement, working Manual and working capital requirements,

- track-record of operations, and ample ability to supply materials, and

- the ability to train the Chinese personnel and provide them long-term operational guidance.

- the franchise agreement must have a minimum three-year term

Therefore, Gap Inc can fulfill the above requirement and really benefit from the expansion of China's apparel market.

Retail strategy

Product and brand

The brand Gap of Gap Inc. is suggested to be introduced firstly to China. The brand image of Gap as a retailer target on middle income consumers seeking

basic fashion styles at reasonable prices. As a result of successful operation in North American market Gap is able to create a strong brand image in the middle fashion market in order to compete with other national operators, such as Zara, in China. Gap not only offers a range of wardrobe essentials which are classically styled, high quality, casual apparel for men, women, and children such as T-shirts, hoodies, great-fitting pants and denim but also nursery gears for mothers and babies. The large product ranges attracts many different kinds of consumers and enhance the recognition of the brand.

Life styles are different in America and Asia hence the branding strategy used by Gap is essential in differentiating itself with both from existing rivals and attracting new customers within each of the respective markets. Product adaptation is necessary when a middle class American foreign brand going to Asia countries especially China. It is important to adapt the product to the Chinese culture. Style is more important in fashion industry, which also includes the color and symbols. The meaning of a color or a symbol can differ from culture to culture. For example, bright red is a must color when the products are selling in the period of Lunar New Year. Besides, size of apparels is also a main concern since Asian has a comparably slimmer body figure.

Place

According to the NBS data, Shanghai, Beijing and Guangzhou are leading far ahead of other cities in market size and spending power. We suggest Gap Inc. to open its flagship stores in these cities. Since Beijing, Shanghai and Guangzhou together account for 12% of China's consumer market. The

consumer market of these three cities is characterized by large urban population and high urbanization rate. As their residents' disposable income leads the country, their consumer market is large and their spending power is strong.

Department stores are the most suitable destination for consumers to shop for apparel items. According to the aforementioned survey on apparel by HKTDC, 67.1% of respondents shopped in department stores for apparel most often.

Promotion

Media advertising and celebrity endorsement are popular in China. It can raise the brand awareness of large numbers of people and motivate consumers who see them in an ad to purchase the product advertised. Due to increasing consumerism in China, consumers consider a status symbol to purchase an endorsed product and they prefer to own a brand that has a good reputation. A good reputation endows the company with competitive advantage which can be used to help facilitate a more successful entry into a new market. It is obvious that most of the consumers will get attracted to a famous film star, singer or a sport star when it is associated with that particular brand because they want to maintain some status, and feel that using a brand promoted by a star can satisfy that desire. Besides, opening flagship stores in prime locations is also an effective way to raise the brand's visibility.

Price

Price is argued as being an important indicator for customers in evaluating the quality of products and within the clothing sector this also holds true.

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Gap's products are at moderate price points which usually retail less than US\$100. It is expected that Chinese consumers are able to afford and willing to spend such expenditure on the goods with good reputation brand name and good quality.

Customer Service

Retail environment changes from time to time, including elements such as shopper's purchase habits, shopping preferences; and customer service is not much different. To be better at serving customers and stay on top in the industry, Gap can focus on providing delivery, customer database, and online purchasing services. For a country as big as China, where customers are spread out on the landscape, similar services are definitely lacking. Delivery service will for sure help in the delivery procedure and lower customers' hesitation in making purchase decisions. Building a customer database can serve loyal customers better and improves on customer retention. On top of that, online purchasing service will shop at anywhere and anytime without involving physically.

Store Design and Display

Like many brand-named stores, Gap has a unified store design and display standard. Currently Gap is using a store design that emphasis strongly on the American style. This would be an attractive attribute to keep for stores in China, which would give the customers a unique shopping experience as they are shopping under a foreign environment without leaving the country. The stores themselves will then become a attraction and give them another choice to spend their leisure moments.