



Technology Brings Profit Back Into Fashion at Gap Inc.

Business Challenge

Gap Inc. is one of the world's top fashion retailers, ringing up about \$16 billion in annual revenue. With over 3,600 retail locations in addition to a significant e-commerce presence, the Company's three principal brands – Gap, Old Navy and Banana Republic – are recognized by consumers around the world.

The move toward "Fast Fashion" required a significantly quicker response to consumer retail trends. The need to reinvent the design, manufacturing and distribution processes while significantly improving profit margins became a strategic priority for Gap's management. With thousands of styles created each year over four major design seasons, and sourced through a global supply chain of approximately 500 subcontract vendors with 3,000 factories in 43 countries, the challenge was high risk and complex.

Delivering to the Company's executive team the analytics and insights required for success of the initiative called for a new process to monitor design decisions and model product costing in real time as each season's line was being planned and developed. Large amounts of data would need to be quickly collected, staged and interrogated using complex calculations and the latest technologies.

Solution

Analysis Team worked closely with Gap's supply chain leadership and within a few months implemented an integrated data mart and analytic solution that was transformational to the business.

The system collects, harmonizes and stages critical data and performs analytics of key metrics across all categories, sub-categories and brands. Automated processes bring together data from disparate sources, including planning and ordering systems as well as the company's data warehouse. Complex calculations provide analysis of product mix, cost component (e.g. fabric, labor, etc.), margins and variances from total brand down to the product style level. Reports in both numeric and graphic formats are available to users on demand through an intuitive interface.

As product design and assortment plans are being developed, the solution delivers up-to-date cost and margin trends to the designers, merchants and leadership team, empowering them to evaluate design and manufacturing alternatives early in the process and enabling much more aggressive cost management with vendors. The visibility of key product margin measures by vendor, together with quality and consumer acceptance metrics, have reinvented vendor relationships and category profitability analysis.

Beginning with the very next season after implementation, the improvement in product margin was dramatic and visibly impacted profits at a total Company level. The savings calculations were core to the new process, easily documented and adopted by Company leadership and the Board of Directors.

Benefits

The solution built by Analysis Team doesn't just analyze and report results after-the-fact, it has radically changed the forecasting, cost control and decision making processes. Used extensively by Gap's CEO, Brand Presidents, planners, merchandisers, field offices and supply chain teams, the system empowers proactive decisions *during* the planning, design and sourcing cycles to deliver immediate benefits.

"This solution has enabled us to make a huge leap in analysis and visibility of product costs, margins, and supplier performance," said Stan Raggio, Executive Vice President, Global Supply Chain (former) at Gap Inc. "This has been transformational for our supply chain management."

The financial impact for Gap Inc. was clear as soon as the new system went into use. The gains were dramatic:

- Gross Margin improvement of over \$300 million in the first year alone
- Cumulative savings over the first four years exceeding \$2 billion, achieved through a 25% reduction in Cost of Goods Sold vs. the baseline implementation year
- Improved speed, consistency and visibility of performance measurement, resulting in optimized product mix decisions, enhanced inventory management, improved quality and higher levels of supplier performance