TV ads 'a waste of money' for the back-in-black Gap
Natalie Zmuda

By shunning TV, Gap looks to turn itself around.

The brand once known for its peppy, elaborate commercials has struggled in recent years to attract consumers in an increasingly competitive retail environment. But now that it's shelved TV advertising-the brand has been off the airwaves for several quarters-and is focusing on merchandising initiatives, Gap seems to be on the right financial track.

Marketing expenditure at Gap Inc. was trimmed 18% during the quarter, driven by the absence of TV ads for the Gap brand, company executives said. That contributed to a 40% jump in profits at Gap Inc., compared to the same period a year ago.

"At Gap brand … they are on a journey," Gap Inc. Chairman-CEO Glenn Murphy said during a conference call with analysts last week. "They are moving the brand in the right direction, and we are delivering on driving our healthier margin dollars."

The move revives the old argument of whether it's wiser for a troubled company to spend on advertising or hunker down to protect the bottom line-one all the more vociferous today given the state of the economy.

"It's a waste of money [for the Gap brand to advertise right now]," said retail analyst Jennifer Black. "In this kind of an economic environment, traffic is slow anyway, and there's so much competition with advertising. … If there was a time for them to do this, it's not that bad of a time. You really want to yell and shout and scream about the product when it's really fantastic."

A spokeswoman for Gap Inc. said the Gap brand will have no TV advertising in the second quarter, similar to last year. Plans for the third and fourth quarters are still being determined. Laird & Partners, New York, is the Gap brand's creative agency.

Several analysts also noted that while the Gap brand is showing signs of improvement, its beleagured brand is the one still spending on TV. Mr. Murphy said all of the company's investment in the medium now lies with Old Navy.

"Old Navy is clearly the most challenged, while Gap appears to be moving in the right direction, and Banana Republic is the most on track," wrote analyst Richard Jaffe of Stifel Nicolaus in a research note. "At best, this remains a multiyear challenge, particularly in light of the difficult retail environment."

During the quarter ended May 3, Gap reported a 7% slide in North American stores open at least a year, compared with an 18% tumble for Old Navy and a 4% decrease at Banana Republic. Across Gap Inc., sales at stores open at least a year dropped 11%-a worse performance than rival retailers JC Penney, Macy's and Kohl's-yet its 40% profit boost left in the dust Penney (down 50%), Kohl's (down 27%) and Macy's, which posted a $59 million loss.

As such, analysts lauded Gap's cost controls. "Given that the turnaround is taking shape (with three consecutive quarterly upside surprises, despite the weak retail environment), we feel that Gap shares have more upside potential than downside risk going forward, despite the fact that comps may remain soft in the near term," Adrienne Tennant, an analyst at Friedman Billings Ramsey, wrote in a research note.

Sabrina Simmons, exec VP-chief financial officer at Gap Inc., said marketing expenses for the quarter ended May 3 were down $21 million to $93 million. She cautioned, however, that "operating expenses can and will vary by quarter. … Unlike the first quarter, we expect our marketing expenses in the second quarter to be fairly similar to last year's level of $88 million."

Mr. Murphy said $475 million was spent on marketing in 2007, which represents a 17% decline year over year. He said it will be critical for each of Gap Inc.'s brands to meet most, if not all four, criteria that justify marketing spending. The brands must have good product, well-run retail environments and an "imaginative, creative" message for the target consumer. The fourth criterion, he said, answers the questions: "Is the consumer ready to respond to the marketing? What is the psyche of the consumer? How are they feeling at that moment?"

Mr. Murphy did not specifically address whether the company would match the $475 million marketing expense from 2007 this year.

"If we can see those four sets of criteria being aligned, we're happy to one, spend the money or, secondly, not spend the money, if we can't see return," he said. "And just to be clear, we're happy to invest more money to get a return if everything is lined up."

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