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Gap Tests New Designs To Help Pull Out of Dive

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Gap Inc. clothes will grace the cover of Vogue's May issue for the first time in more than a decade, highlighting its partnership with up-and-coming fashion designers.

Gap? And Vogue?

Sounds like a stretch, but industry watchers applaud the splashy debut of the San Francisco company's latest collection of women's bow-detailed blouses, trapeze mini-dresses and tie-neck shirts with puffed sleeves.

But some say the innovative launch won't solve the struggling retailer's fundamental problems: It has lost its core consumer, and the move could be too little, too late for a company that has been trying to turn around its business and reinvigorate sales.

Gap is also struggling to compete with value-driven rivals such **Hennes & Mauritz** AB's H&M stores, which market trendy designs at accessible prices. There also is the chance that classic-styled Gap could have a repeat scenario of its past limited-edition misstep, which failed to gain major momentum and attention in the U.S.


Gap's Design Editions were introduced last week in 100 stores and on Gap.com. The designers teaming with Gap are putting a new spin on the classic Gap shirt for prices well below the typical high-end department store and offering a dressier appeal to Gap's mostly casual merchandise mix.

"Bringing on new designers will buy the Gap some time so they can get their house back in order," said Patricia Pao, founder of Pao Principle, a New York retail consulting firm.

Ms. Pao said she expects Gap's new line will allow the company time to figure out "what sticks" with its clientele before making a long-term commitment. Most fashion-industry experts agree that a move toward more exciting designs is vital for Gap, which has admitted that it is trying to pinpoint its core customer.

Most of Gap's core customers from its 1990s boom have grown up and moved on. Staid silhouettes and neutral-color palates failed to inspire consumers season after season as saucy rivals flooded the marketplace with stylish casual wear that coaxed customers away

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from Gap's muted classics.

"They've totally lost that middle-ground customer -- she doesn't shop there anymore," said Roseanne Morrison, a fashion director at trend-tracking firm Doneger Group.

Sales and profit at Gap stores have been in a slump since the second half of 2004, versus the heyday of the early 1990s when its preppy cachet translated into robust sales.

Management issues and inability to attract and retain top design talent have factored into Gap's troubles along with a series of fashion misses.

Now, rivals such as **Abercrombie & Fitch** Co., American Eagle Outfitters Inc. and privately held Metropark grab the younger consumer for casual wear around the same price.

"They're all in the same mall. You need a hook, and Gap has no hook," Ms. Morrison said. She said Gap needs to add some color and detail to its merchandise, fun music in its stores and to link this up with a strong lifestyle message. "On the ads, Gap's cool, it's hip. When you go in...it's a disappointment."

But this time, the fact that three hip, young designers are teaming up with Gap is generating a buzz in the fashion media and blogging world. The bargain appeal of finding at Gap luxury designers such as Doo.Ri, Rodarte and Thakoon -- whose wares are mainly found in the upper echelon of stores such as Barneys New York and on movie stars and society types -- is expected to bring increased traffic back to the struggling retailer's stores.

For instance, a Doo.Ri sheer jersey tank dress at Bergdorf Goodman retails for around \$1,000. At Gap, Doo.Ri's flowing, belted white shirt dress under the Gap Design Editions label retails for \$88, appealing to a wide range of consumers from a fashionista to a working mom.

"Directionally, it makes sense," Wachovia analyst John D. Morris said of the new clothing line. "The Gap is going after the 20- to 30-year-old customer. They're now fine-tuning that." Mr. Morris rates the stock "outperform" and expects Gap to post sustained improvement in sales in 2008. He doesn't own shares of the company.

While industry experts remain confident about Gap's new line and its designer appeal, most agree the moves will ultimately do little more than provide a temporary lift to Gap's overall sales.

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