

## J. Crew: One-Upping the Gap in Quality, Style, and Agility

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**Giant:** The Gap

**Shadow Success:** J. Crew

**The Gap market cap:** \$11.7 billion; revenues: \$14.2 billion

**J. Crew market cap:** \$1.6 billion; revenues: \$1.4 billion

Despite plenty of stumbles, the Gap has for the past two decades often been the source for clothing basics. So much so, it now seems implausible that the San



Francisco-based chain was the original purveyor of the don't-trust-anyone-over-30 counterculture. Under the guidance of the charismatic Mickey Drexler, the Gap reinvented casual chic — and, arguably, invented casual Fridays.

Today, though, it's just as likely that those Friday chinos — as well as Monday jackets — come from a much smaller retailer once marginalized as the source for East Coast preppies' loafers and striped shirts. "J. Crew has done a very good job at reinventing itself as more polished, more upscale," says Sramana Mitra, a *Forbes* columnist and strategy consultant for scores of start-ups. "They're right on the pulse of the trend, which is mass market climbing up one notch to be more designed, more distinctive."

It's an impressive turnaround story. The catalog-based retailer limped along in the 1990s and, in 2002, lost \$40 million. Then it remade itself to appeal to people tired of mass-market merchandise but unwilling to pay designer prices. It also opened more stores, and between 2003 and 2008, J. Crew's revenues rose 50 percent. The lousy retail market sent revenues down 3 percent in J. Crew's first quarter this year but they bounced back up 1.5 percent in a booming second quarter — a blowout compared with Gap's almost 13 percent plunge in the first quarter and continued 7.5 percent fall in the second quarter.

There's no doubt J. Crew has benefited from the Gap's missteps — one of which was problems between Drexler and the board that led to Drexler's departure in May 2002. In fact, Drexler gave up a multimillion-dollar severance package so he could lead J. Crew. "You have to ask, why couldn't the Gap keep Mickey Drexler happy?" says Mitra. "Even at very big companies, company direction is set by one or two people at the top, and Drexler absolutely was the Gap. It's now clear that losing Drexler was losing a lot of the Gap's vision."

Drexler has certainly made his imprint at J. Crew. The company has expanded into several new markets, launching a Crew Cuts line for kids, an online wedding and special occasion shop, the J.

Crew Collection designer line, and — in a direct shot at Drexler's alma mater — the new MadeWell 1937 brand, a younger, more urban line. Even in this rough economy, J. Crew has been expanding aggressively. It opened three stores in the first three months of the year and plans to open 11 more by year's end.

There are lessons that the Gap and others can learn from J. Crew. One is agility. Just look how the J. Crew team went into action when Michelle Obama told Jay Leno on the *Tonight Show* that her outfit had come from J. Crew. Although Obama bought the clothes online anonymously, J. Crew's marketers got a few hours' advance notice when teasers for the interview began showing online. **They moved quickly**, building a Web page that promoted the outfit (a skirt, tank top, and cardigan) and buying the keywords "Michelle Obama" on Google, Yahoo, and Microsoft. The Michelle lovefest continued when the first lady wore a J. Crew ensemble in London in April; the company reported that Web traffic on those product pages shot up by 3,000 percent. "That kind of quick turnaround from idea to execution is the sign of a company that's on the ball," Mitra says. "A lot of people had to get on board and work together to make that happen so fast. Something like that would never happen in the kind of conservative management system you see at the Gap and most big retailers."

J. Crew has enjoyed success with its newest stores, showing that, unlike the Gap, it really does know its customers. At the worst time imaginable — October 2008 — it opened J. Crew Collection on Madison Avenue to sell its upscale designer line. But J. Crew's upscale store is considerably less expensive than the designer shops that surround it, and sales have been strong. Such moves might seem like a gamble, but J. Crew conducts assiduous research and is always on the prowl for hot designer talent. It recently hired jewelry designer Edward Borgo, for instance, whose rock 'n' roll-infused designs will appear in J. Crew's line this fall. "There's definitely that finger-on-the-pulse feeling with J. Crew," says Mitra. "They seem to know what people want before they know they want it, and there it is on the racks."