Levi Strauss & Co.

An Analysis

EEP 142 Group Project

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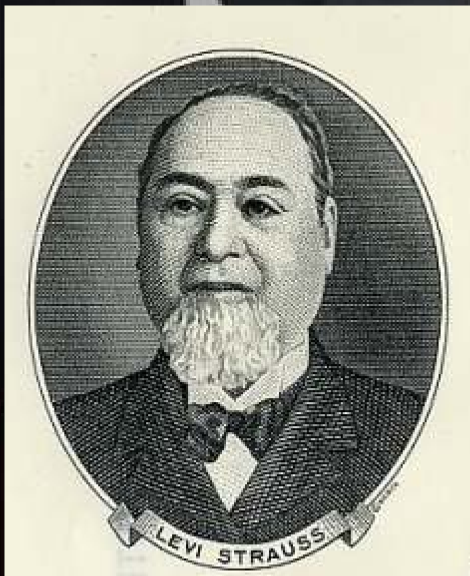
Problem

- The Levi Strauss company is experiencing losses and is continuing to under-perform in the denim jean market.

- The firm faces the general problem of a dominant firm losing market share when more firms enter the market.

Background

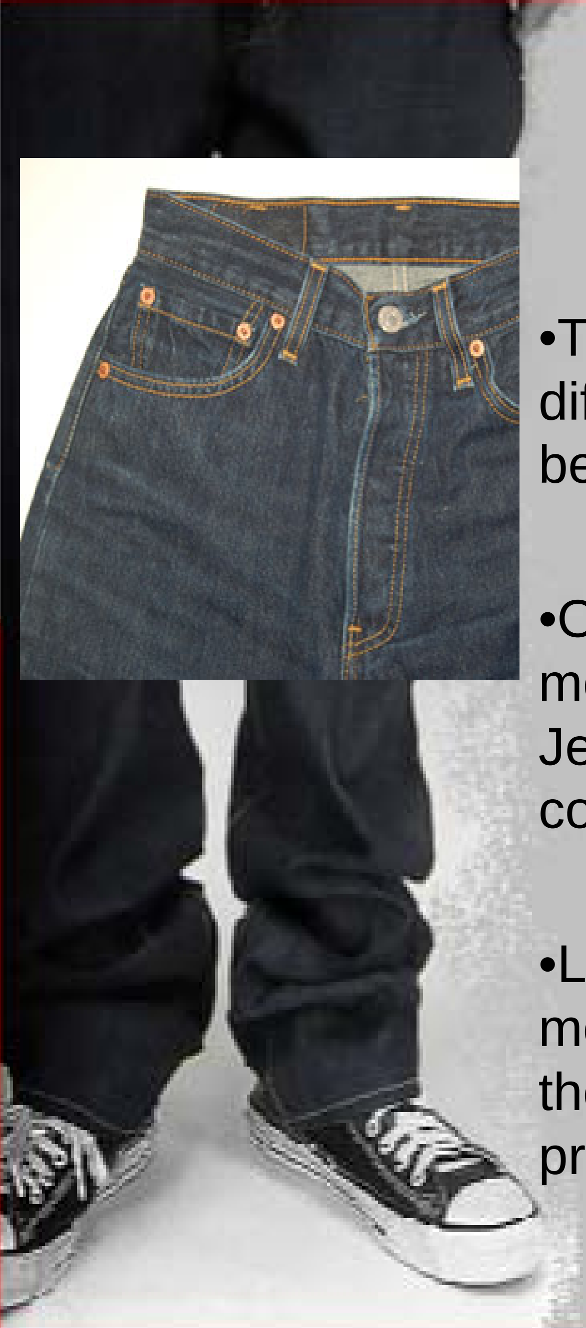
- History



•The company was founded by Levi Strauss in 1853 primarily selling wholesale dry goods. The company was founded in San Francisco, California.

•A tailor named Jacob Davis thought of an idea to use copper rivets to reinforce the points of strain on pants.

•Davis and Strauss purchased the patent of the idea of using copper rivets in clothing on May 20, 1873.



Background

- Company Growth

•The innovation of the rivets in the jeans differentiated Levi's jeans from others because of its increased durability.

•Over the years, Levi's jeans have become more popular, initially due to its durability. Jean products expanded, targeting different consumers.

•Levi Strauss & Co. eventually captures most of the denim jean market, becomes the largest manufacturer of jeans, and profits reach $1 billion by 1974.

Background

- Time Line

•1853: Levi Strauss begins selling dry goods in San Francisco.

•1873: Levi Strauss & Co. patent riveted jeans and begin selling them.

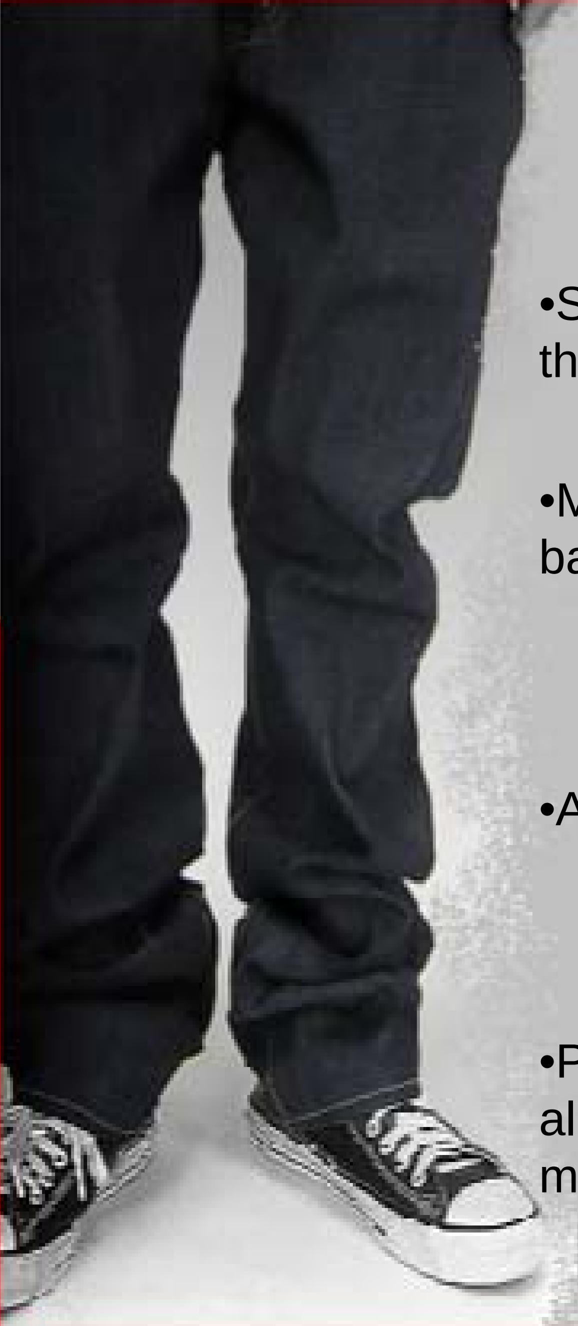
•1912: Koveralls, denim playsuit for children, is first nationally sold product for the company.

•1935: Company sells first blue jeans for women.

•1940s: U.S. government issues denim work clothes for employees in the defense industry.

•1974: Company sales reach $1 billion

•1986: Company introduces Dockers as a new casual line of clothes



Successes

- Monopoly

•Since the patent of the rivets in jeans in 1873, the company achieved monopoly power.

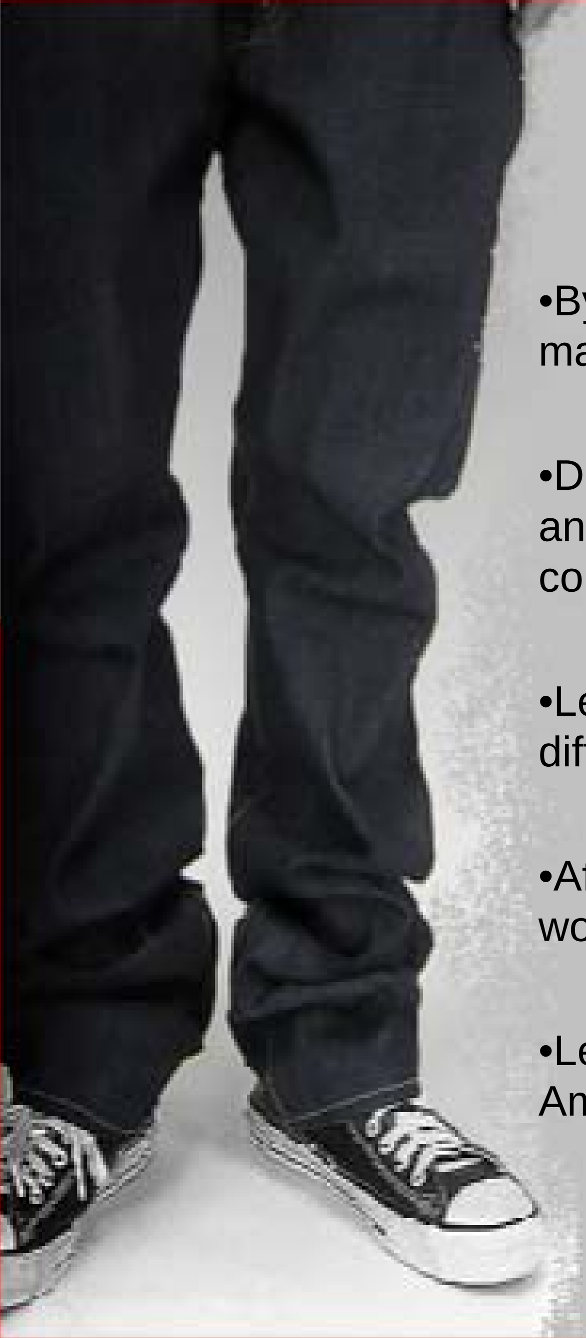
•Monopoly power was gained through entry barriers.

–The patent granted the firm monopoly rights to sell riveted jeans.

•Also by product differentiation

–The rivets on the jeans allowed for longer durability, a form of vertical differentiation.

•Product differentiation and barriers to entry allowed the company to gain more popularity and market share.



Successes

- Expansion

•By 1977, Levi Strauss & Co. is the world's largest jean manufacturer.

•Department stores and boutiques sell Levi's products and are additional channels of distribution for the company.

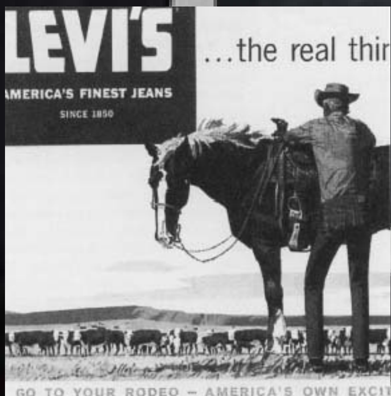
•Levi's provides a wide range of products that target different market segments, capturing demands.

•After the release of the 501 product line, Levi's enjoys worldwide market dominance in the denim jean market.

•Levi Strauss & Co. maintains it's image as an American Icon and the originator of American jeans.

Successes

- Positioning



- Other marketing strategies, like the position of the product, created increased differentiation, contributing to the companies market power.
- In 1930s, the company survived the Great Depression due to increased interest in Western culture.
  - –Jeans were positioned as being worn by "cowboys."
- Levi's jeans were issued to employees in the defense industry (including veterans) during World War II.
  - –Post World War II, veterans that went to college wore Levi's jeans on campuses, increasing popularity.
    - WWII veterans were regarded as heroes.
  - –Jeans were shown to be suitable for casual wear, rather than work.
  - –During the Baby Boom era, Levi's targets younger consumers and positions product as "cool."
    - Early movie stars wore Levi's jeans. An example of celebrity endorsement
- Consumer demand shifts from durability of jeans to fashion of jeans.
  - –Culturally, jeans became symbol of youth and rebellion
    - In 1960s, student protesters wore jeans as a uniform
    - In 1970s, company sells bellbottom jeans
- The firm positioned its products with changing times and changing demands, keeping existing customers and capturing new markets. Increases in sales ultimately increased profits

Competition

- Effect

- Levi Strauss & Co. was threatened by competition, because barriers of entry were relatively low in the jean market. (excluding the patent)

- Some of Levi's competitors include:
  - Calvin Klein
  - Gap Jeans
  - VF Corp (Lee, Wrangler)
  - Tommy Hilfiger

- The entrance of new competitors had many effects on Levi's.
  - Levi's no longer has monopoly power → more competitive prices → lower profits
  - Availability of substitutes → firm faces increase in elasticity of demand
  - Consumers prefer other brands. Levi's customers buy from competition lowering Levi's market share.

- These newer upstarts are able to "chip away" at Levi's market dominance because they are able to capture segments.
  - VF Corp captures low-end jean consumers; Calvin Klein captures high-end consumers.

Competition

- Strategies

•Competitors successfully were able to take from Levi's market due to heavy advertising and branding. Branding was especially effective for companies like Calvin Klein that targeted high-end consumers.

•Some of the marketing strategies that competitors like Calvin Klein used to differentiate their product and brand included:

- –Celebrity endorsements (Calvin Klein and Brooke Shields)
- –Up-to-date European product designs (low-rise, tighter)
- –Advertise jeans as "designer."

•These advertisements were used as a barrier to entry, because of spurious product differentiation. Although Levi's jeans may be physically the same as its competitor's, consumer preferences are affected by brand name.

•In addition to the idea of branding, Levi's largest consumer market were Baby Boomers, and by the time competitors increased in the 1980s, the Levi's brand was perceived to be "mommy jeans." This reinforced the more youthful perception of other brands.

Competition

- Premium Jeans

•Levi’s failed to recognize and enter a new and booming premium jeans market, originating in 2000 and led by brands such as Seven For All Mankind, True Religion, and Rock & Republic.

•Levi executives themselves admitted failing to see the premium jeans trend, and the company was forced into radical cost-cutting, closing dozens of factories and laying off thousands of workers.

•The premium jeans market has over the last five years largely driven the growth of an otherwise stable jeans market, as premium jeans sales grew at a 40-45% rate for multiple years. Levi’s failure to adequately respond to this trend was a large part of its posting declining sales in nine out of ten years prior to 2007.

Solutions

- Advertising

- With the rise of competitors and decrease in brand image, Levi Strauss & Co. makes use of edgy advertisements.

- Brand Loyalty
  - Many of Levi's ads stress brand loyalty to maintain existing customers. The word "original" is used many times.
  - Some tv ads are set in the late 1800s, stressing the historic value of the company.

- Brand Image
  - At the same time, Levi's ads stress the "youthfulness" of their brand jeans.
  - The 501 product line and the Red Tab collections offer jeans that appeal to younger consumers competing with the high-end jean competitors.
  - Television advertisements are more innovative and target younger crowds.
  - http://www.youtube.com/watch?v=CSG807d3P-U
  - http://www.youtube.com/watch?v=skWFyop_pxU&feature=related
  - http://www.youtube.com/watch?v=W-SZN1VRIl4&feature=related

- These marketing strategies however did not help with the worldwide decrease demand for jeans. This implies that other clothing is becoming a substitutable good for jeans.

Solutions

- Alternative

•Although Levi Strauss & Co. had worldwide market dominance in the 1980s after the release of 501 product line, profits continue to plummet due to: (1) decrease of demand for jean products and (2) more competition.

•In 1996, revenues were reported at $7.6 billion and a U.S. market share of 18.7%. By 2001 revenues drop to $4.25 billion and U.S. market share of 12.1%.

•In order to maintain revenues, the company releases the Levi's signature jeans.

- –This product line appeals to the low-end consumers.
- –Decrease in demand for jeans causes market price to drop, so consumers want cheaper jeans.

Solutions

- Alternative (cont.)

- In 2002 Levi Strauss & Co. makes an agreement with largest retailer Wal-Mart as a supply-chain strategy to mass-market consumers.
  - –Levi's Signature brand to be sold in Wal-Mart stores exclusively

- This was an excellent strategic move because Wal-Mart was making large sales while Levi's could not keep up in sales. This had potential to benefit both parties.
  - –By 2002, Wal-Mart was #1 in the Fortune 500 rating.
  - –Levi Strauss & Co. was ranked #383 in 2002.

- Although this partnership was a success, Levi Strauss could not offset the slowdown in the aggregate denim jean market, continuing to loss profits.
  - –2008 Rating for Levi's: 522 from previous 510
  - –Profits continue to fall.

Solutions

- Alternative (cont.)

- Forced to re-evaluate itself by years of declining sales, Levi's has been able to find some degree of success with primarily the introduction of the Signature line and a large-scale streamlining of costs and it's business. Levi's is also being helped by its international presence and is currently being benefited by impacts from the global currency exchange market, as the company benefited from the weak dollar.

- The company is still trying to find a way into the lucrative premium jeans market, introducing a new premium line and hiring famous artists to liven up the brand. Competitor VF Corp. decided to purchase Seven For All Mankind as their market entry.

Responsibility

- Background

- Levi Strauss & Co. is a family owned worldwide corporation with headquarters in North America, Europe, and Asia.
  - The company is vertically integrated, meaning it owns/has owned factories for every level of production for the jeans.
  - The company employs about 10,000 people worldwide.
- Historically Levi Strauss & Co. is recognized as a caring and corporately responsible company.
  - After the 1906 San Francisco earthquake, the company continued to pay workers as it was rebuilding factories and buildings.
  - During the Great Depression, the company kept workers busy installing new floors in factories rather than fire them.

Responsibility

- Background (cont.)

- Levi Strauss & Co. has also taken the lead on social issues.
  - During the 1940s, the company desegregated its factories bringing white and black workers together.
  - In 1980s, the company was very involved in educating people about AIDS providing $37 million to HIV/AIDS services.
  - One of the first companies to extend healthcare to their workers’ spouses.

- Levi Strauss & Company approach to business: “profits through principles.”
  - *"As business leaders we have the obligation, both individually and collectively, to make our enterprise not only a source for economic wealth, but also a force for positive social change in the conduct of our business. This principle of responsible commercial success is embedded in our more than 150-year experience, and continues to anchor how we operate today."*

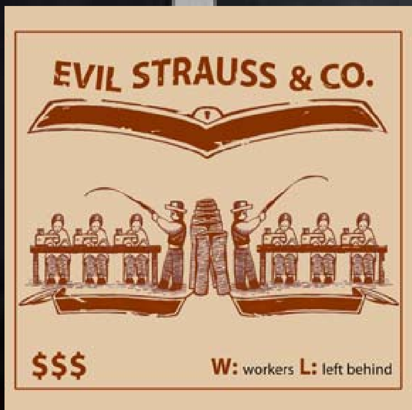
Responsibility

- Sweatshops

- With increased competition from other jean producers in the 1980s and 90s, like any profit-maximizing corporation, Levi Strauss & Company closed many factories and subcontracted production.
  - –Subcontracted production is cost-minimizing because labor is relatively abundant and wages cheaper.
  - –In order to compete with prices, subcontracting work makes sense.

Responsibility

- Sweatshops (cont.)



- The company had 6 subsidiary factories in Saipan, capital of the U.S. Commonwealth of the Northern Mariana Islands.
  - The U.S. Department of Labor cited that workers were paid sub-minimal wages, 7 day work weeks with 12-hour shifts in “slave-like” conditions.
    - The subcontractor, Tan Holdings Corporation, had to pay a fine of $9 million as restitution to 1,200 employees.
    - Levi Strauss & Co. claimed no knowledge of the offense, cut-off ties to Tan Holdings, and issued labor reforms.

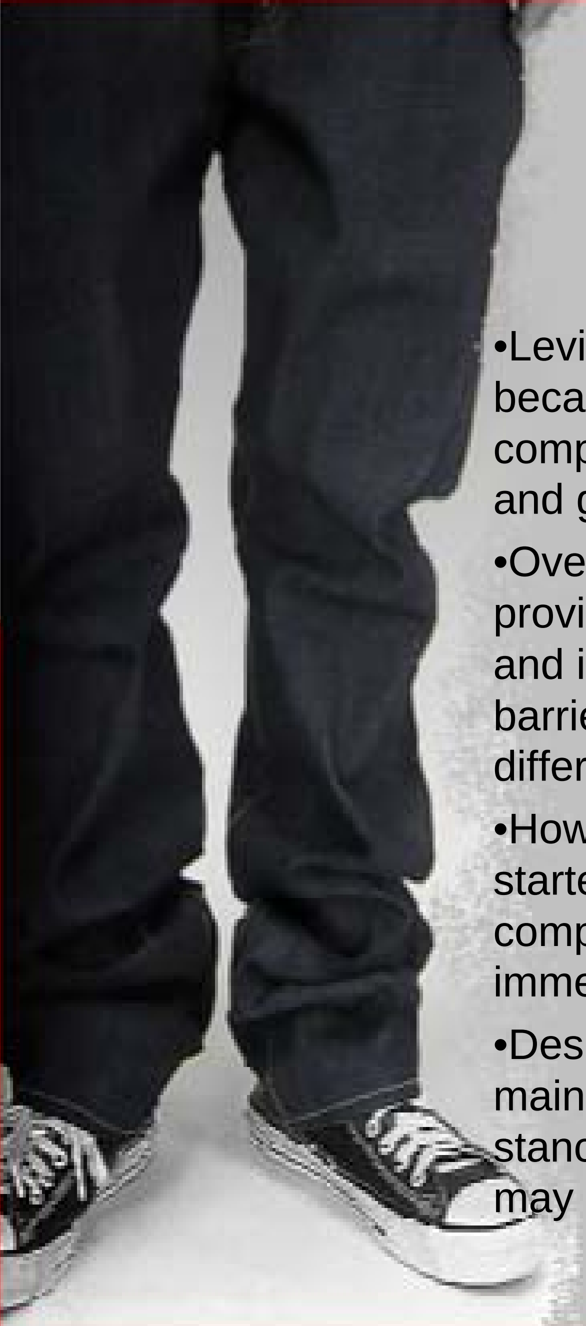
- 1999, Sweatshop Watch, Global Exchange, Asian Law Caucus, Unite, and workers filed a class-action lawsuit 3 times to 27 U.S. retailers, including Levi Strauss & Co. Levi Strauss was the only defendant to win the case.

Responsibility

- Environmental

- Continuing on the approach of "profits by principles," in 2006 Levi Strauss & Co. launches the Eco clothing line.
  - –Jeans are certified to be made from 100% organic cotton and fully sustainable production processes. This includes cotton untreated by chemicals, pesticides, and manufactured at sustainable carbon emissions.
  - –The jeans are also packed in 100% recyclable and reusable materials.

- Economic implications
  - –Organic jeans are more expensive, due to the added costs to certify these genes to organic standards.
  - –However, discouraging the use of chemicals for cotton is a step toward the right direction. Pesticides have externality costs to the environment and workers, because they are mostly improperly used in poor countries. A reduction in externalities improves social welfare.
  - –In the long-run, sustainable production has the possibility to being profitable.
  - –Corporate responsibility also has long-run profits.



Conclusion

- Levi Strauss & Company had most of its early success because the firm was behaving monopolistically. The company patented the riveted jeans, increasing durability, and gaining popularity.
- Over the years, the company maintained profits by providing a wide range of products, capturing new markets, and increasing its market shares. The company created barriers to entry by patents and trademarks, and by differentiating its product from generic jeans.
- However as more firms entered the market, the company started losing customers and incurring losses. The upstart companies captured niche market shares from Levi's immense market domination.
- Despite these reduction of sales, Levi Strauss & Co. maintained its corporate responsible image and progressive stance on social, labor, and environmental issues, which may have long-run profit opportunities.

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Q&A

Questions and Answers