

## Levi Strauss's Big Challenge

Levi Strauss, the well-known jeans maker, was once a leading differentiator in the apparel industry. Its jeans commanded a premium price as customers the world over perceived the value or status of wearing Levi jeans was worth paying extra for. Indeed, in Europe and Asia, Levi jeans were often sold at double or triple their U.S. price. No more. Levi is now fighting to lower its costs to able to pursue a cost-leadership strategy, which has become the principal way to compete in the fast-changing jeans industry.

Levi's problems arose because of changes in the business models of other jeans makers and apparel companies. Early in the 1990s, other jeans makers such as VF Corp (which makes Wrangler jeans), Calvin Klien, and Polo moved most of their jeans production capacity abroad to countries where labor costs are lowest. With their lower cost structures, these companies then began to charge lower prices for their products so that customers began to consider carefully whether a pair of Levi's was worth a premium price. Then, in a significant move, apparel companies such as Wal-Mart and Sam's J.C. Penney, Sears, and Dillard's began to wonder why they should pay Levi a premium price for selling its jeans when they could sell jeans under their own labels at a lower price and still make more profit than if they sold Levi's jeans. So, they contracted with low-cost foreign producers to make jeans under their own in-house labels. The result was sales of Levi jeans plummeted as many customers began to buy jeans on the basis of their price and not a particular product's differentiated appeal.

Levi, because it still produced most of its jeans in the United States, was burdened with a high-cost structure and could not reduce prices to compete. It started to suffer billions of dollars of losses in the 1990s as its sales fell from a peak of \$7.1 billion in 1996 to just \$4.6 billion in 2000. To survive in a market now driven by both competitors and buyers pursuing a low-cost strategy, Levi had to respond in kind. Since 1997, it has closed twenty-nine U.S. manufacturing facilities and laid off 20,000 employees. In 2002, it announced it would close six more plants and lay off 3,300 more employees, which will leave it with just two sewing and finishing facilities in San Antonio, which it will use to experiment with new kinds of jeans before it contracts with foreign manufacturers to produce these products in volume overseas.

As Phillip Marineau, CEO of Levi, commented, "Outsourcing production supports a variable cost structure, helps us maintain strong margins, and enables us to invest more resources in product, marketing, and retail initiatives." Sometimes pursuing a low-cost strategy is the only way to survive in a market.