Cost Leadership, Differentiation or Focus: A Study of Corporate Financial Strategy at Levi Strauss

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Abstract

Strategic management involves acquiring and sustaining intrinsic advantages over rival firms in order to ensure long-term success and profitability. While few brands recovered in today's "fast fashion," others still manage to survive by banking on past reputation and favorable brand image. This paper applies Michael Porter's Typology of Strategy Options framework to the case study of Levi Strauss, a company that has been in decline for about 20 years and mostly known for its high-quality jeans brand, Levi's 501. After examining the financial performance and historical account of Levi Strauss as an apparel company, it evaluates the corporate strategies for revitalizing the iconic brand/company. This case highlights the managerial implications of Porter's framework for analyzing and designing competitive strategies in the denim jeans industry. It draws some implications for management and offers broad takeaways to aid it in decision-making. Finally, it evaluates the characteristics of declining companies in the hope that we can identify the problems confronting financial analysts hoping to value them properly.

Introduction

The rapid globalization of the fashion industry has given rise to changes in consumer tastes and preferences due to rising overseas competition. Impelled by trade liberalization, most companies have become "cost leaders" seeking to profit from increased competition. They are aggressively using low cost strategies to minimize costs and capture new markets. One of the firms that has been most influenced by competitive-driven changes is Levi Strauss. Once the world's best-known and largest jean company for its Levi's brand, it is now struggling to stay relevant and maintain market leadership.

Strategic management involves acquiring and sustaining intrinsic advantages over rival firms in order to ensure long-term success and profitability. In today's fast fashion, however, it is hard to survive by banking on past reputation and brand name only. This case applies Michael Porter's Typology of Strategy Options framework to the case study of Levi Strauss, a company that has been in decline for about 20 years and mostly known for its high-quality jeans brand, Levi's 501. Founded in California, San Francisco in 1853 by two German immigrants, Levi Strauss company has become synonymous for blue jeans. The founders, Strauss and tailor Jacob Davis, were more than simple purveyors of denim jeans. On May 20, 1873, they "obtained a U.S. patent on the process of putting rivets in men's work pants for the very first time."[1] Having invented the first blue jeans known as "waist overalls,"[2] the founders launched both a fashion basic and a stable of working peoples' garb that has endured worldwide for nearly 150 years. 1965, Levi Strauss formed an international division. Since then, it has diversified its portfolio to appeal to consumers of all ages, social classes and lifestyles globally. Under Levi's, Dockers, Signature and Denizen brands, the jean manufacturer designs, sells and markets jeans and other apparels such as pants, tops, shorts, skirts, jackets, footwear, and accessories.

The global market for jeans has changed radically in the past few decades. Jeans remain a highly competitive commodity in the US as evident in a growing market share of mass retailers. Jeans continue to be a highly competitive domestically involving many small and large manufacturers, including multinational firms, that have a wide retail distribution at both the low and high end of the market. As the denim market rapidly expanded throughout the 1990s, Levi's jeans faced intense rivalry from other brands it had never seen before. In addition to major competitors like VF Corp (which owns the Wrangler, Lee, Vans and North Face brands), there has been competition from other jean producers like The Gap, American Eagle, Zara and H&M. Another source of competition is private label brands like Wal-Mart, JC Penney, Target.

This study uses Porter's *Typology of Strategy Options* framework and historical records to examine how corporate financial strategy is formulated and implemented at the oldest US jeans manufacturer and retailer, Levi Strauss. This will help demonstrate how companies struggle to offset decline and restore market leadership. In our evaluation, we use industry analysis, in depth analysis of corporate strategy based on published literature on the jeans industry, market research reports, and audited financial statements (SEC-10K filings).

Levi Strauss went public with its first IPO in 1971, went private again in 1985, and finally went public again by issuing a second IPO in March 2019.[3]

The company aspires to be a "global leader" in jeans manufacturing as manifested by its presence in 110 countries. In 2017, its financial performance was marked by the "fifth straight year of growth."[4] *Given that Levi's brand accounted for 86% of total net sales in 2018,*[5] *where does the company stand in relation to competitive advantage and brand association today? What can the retail industry learn from Levi Strauss' transformation? What unique challenges does this industry face and how is the chosen business strategy responding to these challenges?*

The findings indicate that the Levi Strauss company departed from "differentiation" toward a mixed strategy of cost leadership and best-price value, making some progress toward a remarkable recovery. Although it is indeed true that in the last 25 years the company's iconic brand (Levi's) has lost a lot of its appeal, followed by revenue and valuation, in the last 5 years Levi Strauss has seen stable growth in revenue, and the company is still a market leader. This hybrid strategy combined cost reductions along the supply chain with marketing efforts that emphasized women's wear, geographic diversification, product innovation, and new management team. Cost leadership is evident in sales performance geared to mass fashion and product focus to cheaper lines of jeans and non-denim apparel like casual and athletic wear. *Can "cost leadership" and "best-price value strategy" revitalize Levi's brand that will spark a period of stable growth and revenue for the company*?

There is a scarcity of studies that focus on declining brands from the standpoint of strategic management, especially Porter's typology of strategy options framework. Using detailed case studies and interviews with marketing executives, Thomas and Kohli examine the causes of brand decline in a number of well-known companies.[6] They discuss types of brand revitalization strategies that can be useful for rebuilding and sustaining invaluable brands. Their analysis provides guidelines "that can be used to strengthen the brand and give it a second life."[7] Especially rare, however, are case studies that highlight how brand revitalization within struggling companies map to Porter's generic strategies. This study aims to highlight the potential implications of Porter's framework for analyzing and designing competitive strategies in the denim jeans industry. It draws some implications for management and offers broad takeaways to aid it in decision-making.

Part 2 reviews the literature on competitive advantage theory. Part 3 highlights competition dynamics in the recent jean industry, financial demands on the controlling family, and impending increases in pricing. Part 4 examines the cause of brand failure of Levi and *turnaround* strategies such as market targeting and brand repositioning (sub-branding). Part 5 discusses corporate restructuring and growth. Part 6 discusses brand revitalization efforts. Part 7 discusses how managers may face difficult points and what the feasible approach would be to rectify these problems. Part 8 concludes with directions for future research on more case studies on this issue.

Competitive Advantage: Typology of Strategy Options Framework

Porter employs the term *competitive advantage* to analyze how firms exploit intrinsic and distinctive strengths over rivals and by doing so find their industry niche.[8] He defines strategy as "the creation of a unique and valuable position, involving a different set of activities."[9] In choosing a competitive strategy, an organization strives to "utilize its unique resources to differentiate itself from its competitors by meeting the needs of its targeted customers."[10] An effective strategy provides a framework for guiding an organization in the long run. This means choosing activities that generate superior performance towards *sustainable competitive advantage* which can be obtained by: 1) the creation of both distinct and valuable market positions, 2) understanding the "trade-offs between the activities of incompatible positions"—more of one strategy or method requires less of another, and 3) creation of a "fit" between the firm, its objectives and the chosen strategy.[11,12]

Strategy addresses how a firm competes and whether its policies and practices can satisfy its stated goals. According to Porter, organizations achieve competitive advantage from three different sources.[13] Known as "generic" strategies, companies compete on the bases of *cost leadership*, *differentiation* and *focus*. Firms under a cost leadership strategy emphasize standardized products and low-per unit cost. Serving price sensitive customers, cost leaders compete on the basis of lower prices, thereby striving to maximize market share and drive competitors from the market. Two types of cost leadership can be defined: Type-1) *Low Cost Strategy* aims to produce a large array of goods and services at the lowest price available on the market. Type-2) *Best Value Strategy* offers products and services at the best value available on the market. When cost leaders use best value strategy, they aim to provide better quality at the lowest price than a rival's product with similar features.

Companies using either of the low-cost strategies must find ways of preventing rivals from replicating the leader's cost leadership advantages. Competitors cannot easily take advantage of cost leadership if there are many price sensitive buyers. The market should be large enough to generate higher profit margins from price competition. Furthermore, it is more effective to pursue a cost leadership strategy "when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand" or when "buyers are large and have significant power to bargain down prices."[14] An effective cost leadership strategy is demonstrated by high efficiency, high economies of scale, low operating cost, waste intolerance, extensive spans of control, managerial incentives linked to cost management, and greater employee engagement in cost control efforts. The low-cost strategy faces risks since it can be easily imitated by rivals. Also, technological innovations may render cost-leadership ineffective or customers may switch to other brands for reasons besides price. Larger firms like multi-product retail stores are well known for their low-cost leadership strategies.

According to David and David, due to the risks of pursuing low-cost methods independently, cost leadership "generally must be pursued in conjunction with differentiation."[15] The differentiation strategy is aimed at producing unique products/services and targeting price insensitive customers. This strategy enables a firm to charge higher prices for quality and differentiation and thus establish a loyal customer base. Product and brand development offer advantages of differentiation especially when technological change is fast paced. For a differentiation strategy to be effective in the long run, customers should perceive the product as having high value. If the perceived value of the product does not justify higher price, a differentiation strategy can easily be replaced by a cost leadership strategy. Since competitors can easily clone the differentiating attributes of products, firms "must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms." Products are differentiated by "attractive packaging, extensive advertising, quality of sales presentations, quality of website, list of customers, professionalism, size of the firm, or profitability of the company."[16]

While both differentiation and cost leadership serve mass market or a large group of customers, *focus strategy* aims at producing goods and services for a small (niche) group of buyers. Generally pursued by mid-size and large firms in combination with cost leadership or differentiation, this strategy focuses on narrow market such as one based on geography that involves a particular group of customers. Focus strategies involve market penetration, market development and market segmentation. Firms using focus-oriented strategies adopt either *low-cost focus (Type 1)* or *best-price value focus (Type 2)*. They target one or more niche market segments, seeking either cost leadership or differentiation within that narrow segment.[17,18,19] While *Type 1* serves a small group of customers at the lowest price available on the market, *Type 2* (also known as *focused differentiation*) appeals to a niche group at higher prices and with differentiated products that are perceived as the best value. Local fashion boutiques, ethnic restaurants and boutique hotels are examples of *Type 2 (best-price value)* focus strategies.

Some critics claim that Porter's generic strategies are too broad to be used as a corporate strategy universally. Companies apply different strategies across a wide range of markets or even brands within the same company. In that case, it is more appropriate to talk about "business-level strategy" than corporate-level strategy.[20] Furthermore, in recent years more and more breakthrough companies attain market leadership by choosing a "strategic mix" rather than a single generic strategy. Known as "multidimensional market leadership," this entails combining "simultaneously cost leadership, superior customer services and product leadership."[21]

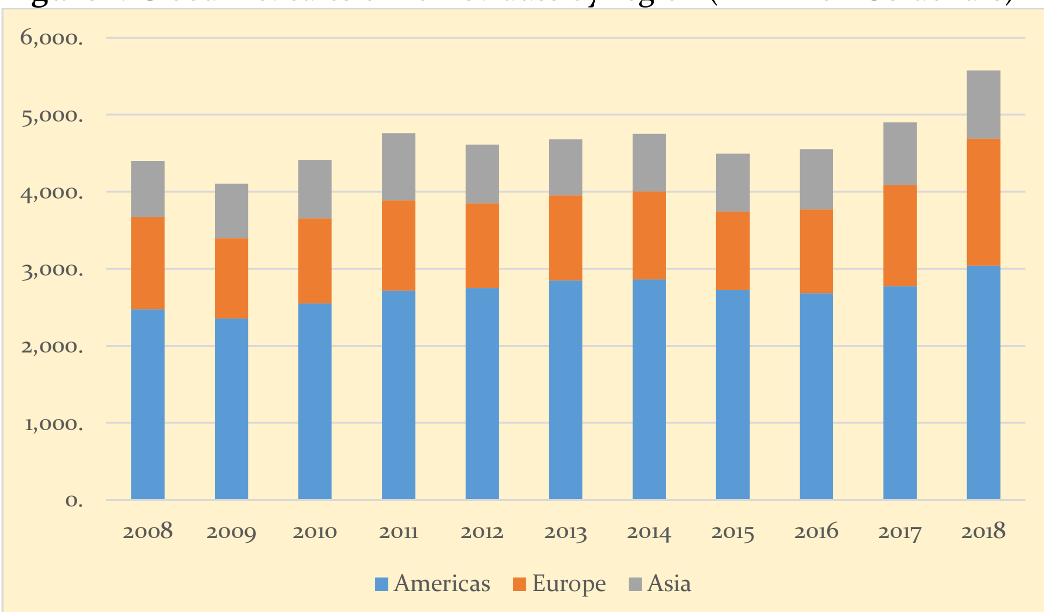
Strategic mix also enables firms to enhance products with superior marketing, innovation and customer service strategies as a way of mitigating brand decline. At the decline stage, firms use mix of strategies to extend a product's life cycle. This is true of firms with a global reach like Levi Strauss since it can always tap into unsaturated markets where there is high level of brand awareness. Brand revitalization can be effective only if the firm addresses factors that are holding back the brand. When an iconic brand is declining, for example, firms respond by differentiating that product across a broad range of market segments or "restaging" a mature product by adding value or more distinctive features.[22]

Global Jeans Industry Structure

The success of each generic strategy depends on factors such as type of industry, economies of scale, level of competition and overall business environment. Porter regards the industry structure and competitive forces as "being essential to effective strategic positioning."[23] Understanding industry structure enables companies to identify opportunities and threats that determine competitive advantage. Upon identifying the factors that affect profitability, companies can respond to rapidly changing trends (i.e., changes in consumer behavior and needs) and potentially appropriate the strategy that best suits their business structure. As Porter states: "A healthy industry structure should be as much a competitive concern to strategists as their company's own position."[24] The performance of an industry depends on forces such as "rivalry among existing competitors, threat of new entrants, bargaining power of suppliers, bargaining power of consumers and threat of substitute products or services." While the relative strength of each force varies by industry and over time, the strongest force is the one that guides overall business strategy.

The jeans industry faces challenges in implementing a differentiation strategy since many rival companies can cheaply and quickly acquire sources of differentiation. The other trend is that more and more competitors are striving to specialize in the same target segment. In terms of rivalry, the existing competitors are geographically widespread and operate within an equally wide range of prices. Additionally, some are even larger and can allocate greater resources in the markets in which they compete. The competitors include brick and mortar stores, vertically integrated retail stores as well as online vendors that offer both jeans and khaki trousers. The main competition comes from the fashion apparel retailers producing a variety of jeans (printed, textured, colored denim jeans) and private or exclusive labels (super premium jeans), with an increasing appeal to female consumers and younger generation of shoppers.

Figure 1. Global net sales of Levi Strauss by region (in million US dollars)

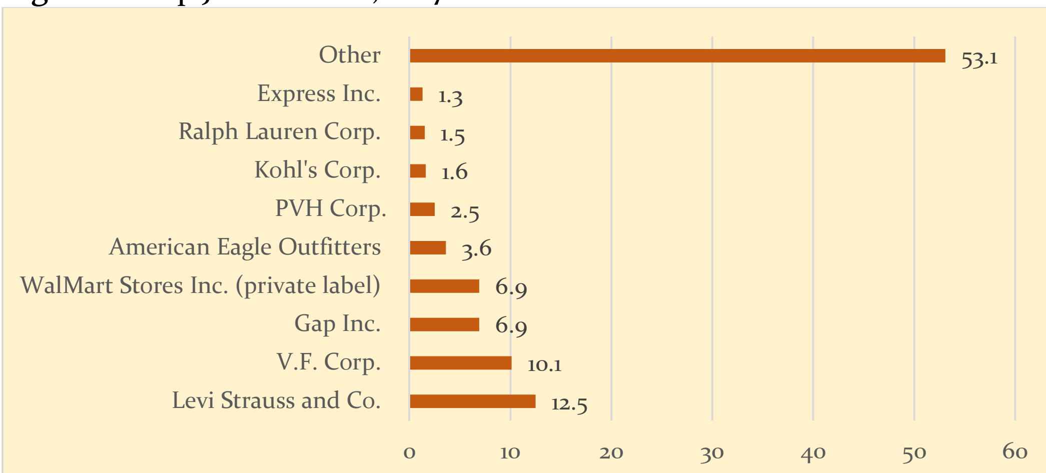


Source: Figure is author's own. Data from Levi Strauss & Co.[25]

While the risks of the jean market are high due to the intense competition resulting from low barriers, the level of entry depends on the political and economic conditions. Levi Strauss occupied a dominant position in the global jeans industry with an 11.4 % market share in 2016, followed by VP Corporation (11.4%) the GAP (6.3%) and Walmart Stores (6.2%).[26] By volume growth of sales, "economy jeans" has been the largest segment in the US market, accounting for 14.2% of change in total jeans sales from 2011 to 2016. Other category of jeans are standard jeans, premium jeans, and super-premium jean.[27] Challenges arise from highly competitive global market and increasing average unit price of jeans. Recent tariffs aimed at China are expected to contribute to higher prices in the US, since the fabric for denim pants and non-denim pants is mainly imported from China. The 10% tariff introduced in September 2018 includes fabric and handbags, increasing to

25% in May 2019.[28] Higher prices will have an impact on the bargaining power of consumers by limiting consumption. They make substitution more difficult in the absence of cheaper alternatives due to the realignment of prices globally.

Figure 2. Top Jean Makers, 2017 % Market Shares



Source: Figure is author's own. Data from Lazich and Burton, *Market Share Reporter.*[29]

To offset rising costs of importation and maintain sales growth, jean retailers are greatly reducing discount offers. Since the US market drives the global demand for blue jeans, any regulatory change leads to a realignment of prices (especially in fabric and raw materials) with an impact on the bargaining power of producers and consumers. As seen in Figure 1, the Americas region led Levi Strauss with net sales amounting to nearly $3 billion in 2018. In 2016, 46% of the company's sales came from the US alone followed by Western Europe and Asia Pacific as the "prime sales generators."[30] According to one industry report, "as unit prices in the U.S. are generally lower than the prices of the same products in foreign countries, companies are planning to align the prices in the U.S. with those globally to increase store traffic across the world as they expand their store networks globally."[31] Similarly, when market barriers like tariffs are imposed, the prices of jeans globally will increase as companies try to bring into line US prices with prices elsewhere.

Mass market producers such as Zara (Industria De Diseno Textil) and H&M are foreign competitors with jeans that appeal to younger generation of consumers. In the denim category, the largest global competitor is VF Corporation, which produces a variety of brands like Lee, Wrangler, 7 For All Mankind and Rock & Republic. In 2016, Levi Strauss & Co and VF Corp were the "two leading players" in the U.S. jeans market, with a combined revenue of 22.8% value share, 11.4% and 11.4% respectively.[32] Figure 2 displays the market shares of "top jean markers" based on total sales in billions of dollars in 2017. Competitors like VF Corp has grown through an acquisition driven strategy with ownership of more than thirty brands. Its largest brands are The North Face, Wrangler, Timberland, Vans, and Lee. M&A transactions are fueling expansion in the garment industry, as seen in Uniqlo's acquisition of J. Brand, which provides high-quality jeans and practical clothing at budget prices.

Causes of Brand Decline

A flagship brand for Levi Strauss, Levi's has enjoyed popularity for its high-quality denim jeans with a continuing positive image in the minds of loyal consumers. Over time, however, sales started declining and Levi decided to expand its product portfolio towards non-denim products like pants, tops, jackets, skirts and secondary fashion items. Thomas and Kohli argue that one of the main symptoms of a brand's imminent decline are "significant drop" in unit sales over an extended period. While sales normally fluctuate in response to competitors' actions as "meditative" forces, managerial actions are a "generative" force in shaping the brand's future.

Table 1. Levi Strauss: Key Brands and Products

Brand	Product Description	Year Introduced	Share of Total Net Sales, 2015
Levi's®	The "classic American style," "iconic" 501 Jean: "the original and best-selling five pocket jeans of all time."	1873	85%
Dockers®	Men's brand originally; business casual.	1986	10%
Signature by Levi Strauss & Co.™	A special multi-product line, which includes "denim jeans, casual pants, tops and jackets in a variety of fits, fabrics and finishes for men, women and kids."	2002	5% (combined)
Denizen®	Variety of jeans	2011	

Source: Table is author's own; Data from *Annual Report*.[34]

The causes of brand decline related to managerial actions are: 1) lowering product quality in order to cut costs, 2) increase in prices without offering additional benefits, 3) aggressive sales through price cutting and use of cheaper materials (for instance, this was one of the main reasons for Lacoste's image taking a sharp downturn in the 1980s), 4) inaction, negligence and lack of "constant nurturing" as brand popularity takes off with management treating its core brand as a "cash cow." The inability to invest in the brand produces strong temptations to "milk the brand," 5) "inability to stay with the target market" (for instance, GAP's targeting of teenagers and young adults during the 1990s, which alienated its core customers who felt abandoned as the brand aspired to look more "youthful" and trendy).[33]

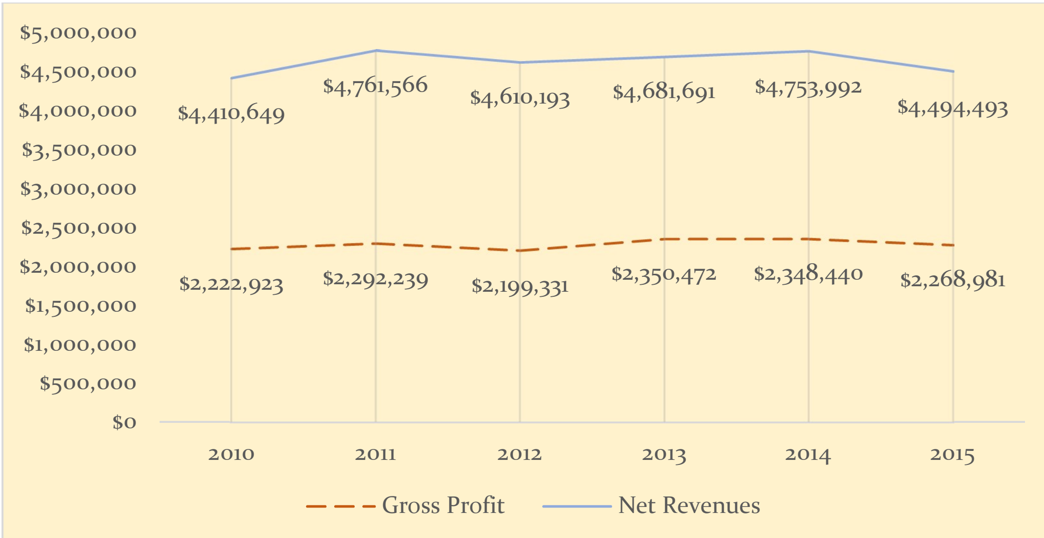
During mid-to-late 1990s, sales continued to decline as described above. The core brand was insufficiently nurtured since it was treated as a "cash cow." Levi Strauss was unable to stay with the target market with the same brand as consumers were switching to other brands. Targeting a new market was not an easy choice because it could run the risk of alienating the traditional customer base. When sales started to hit a new low, management adopted a sub-branding strategy. This involved using the classical brand as a vehicle to introduce a new brand and still appeal to the former base. For instance, Dockers brand was introduced in 1986. Dockers started as a business casual clothing for men and extended its style to women's clothing in 1987. Dockers brand put the focus back on the Khaki pants as a casual alternative to formal attire. In 2002 and 2011, the company introduced special line jeans—the "budget-conscious Signature and Denizen labels."[35]

Despite these efforts, sales rose hardly "as the company failed to translate affection for the brand into actual purchases."[36] These interventions were symptoms of decline that further weakened the flagship brand. Some Levi's jeans are of low quality (made in China) and sales have not been increasing because they are perceived as inferior to the classical 501s. In the post-recession period, customers have been polarized between super-premium and economy jeans. These niche areas are not currently being served. The former group follows the latest trends and product innovations and is willing to pay a premium market price. It may be possible to attract this segment with a "product leadership" strategy that consistently brings superior products to the market.[37]

Corporate Financial Strategy

Levi Straus has underperformed financially for the last two decades. In response, upper management made several attempts to boost sales and regenerate growth. Topping at close to $8 billion in the 1990s, "the 161-year-old parent company" achieved about half of that revenue by 2009. In 2013, both revenue and profits increased for the first time in five years.[38] From 2001 to 2010, sales "never exceeded $4.5 billion."[39] Figure 3 illustrates stagnant growth in gross profits and net revenue of the company over time.

Figure 3. Levi Strauss & Co Subsidiaries, Selected Financial Data (in thousands USD)



Source: Figure is author's own; Data from Company *Annual Reports,*[40,41] Audited Consolidated Financial Statements, SEC Filings, End Year November.

Changing ownership has been a testimony to stagnant performance for about 20 years. An IPO for Levi was issued in 1971 and was publicly traded until 1985, when the Strauss family initiated a leveraged buyout to take the company private.[42] Another family buyout came in 1996 when the jeans manufacturer declared that it would "buy out some shareholders, including participants in an employee stock plan, to ensure that control of the privately held company would remain in the hands of the Haas family."[43] But no payments were made to workers due to poor cash-flow performance.[44] From 1985 until March 2019, Levi Strauss was a family owned company and shares in company stock were not publicly traded. Only the corporate bonds and shares of Japanese affiliate were publicly traded. As a result of this affiliation, the company was required to file with the SEC.[45]

To finance leveraged buyout operations, especially the one occurring in 1996, the CEO Robert Haas, "repurchased nearly one-third of its shares, taking on $3.3 billion in debt. With its eyes now focused on debt repayment, management all but lost sight of the rapidly changing marketplace and its new competition."[46]

From 2010 to 2015, the corporate strategy prioritized "operational excellence," which called for greater financial savings, low cost and sustained profitability. This strategy described operational excellence in conjunction with "streamlining our product development, planning, and go-to-market strategies, implementing efficiencies across retail, supply chain and distribution networks and continuing to pursue practices that result in greater cost efficiencies."[47] The jeans manufacturer launched several growth-oriented strategies towards boosting sales in its own retail stores and wholesale operations. It emphasized building a cross-channel business model through franchising, online stores, and company-owned stores.

Since the decline of the classical brand (iconic 501 jeans), corporate restructuring has been geared to cost leadership with a best-price value strategy and new management team. In 1998, Levi Strauss announced that it would increase its use of Chinese subcontractors, taking advantage of lower labor costs. In 1999, 11 of 22 remaining plants were closed in North America. In 2002, the company further announced that it "would close six of its last eight U.S. plants and cut 20% of its worldwide staff (3,300 workers). In September 2003, it cut another 5% of its global staff (650 workers)."[48]

In 2010, a new CEO, Charles Bergh, came on board with a strategy to turn around the brand and promote cultural change. He was shocked by what he saw as "a lack of urgency, of financial discipline and of data discipline" that had penetrated the company culture for decades. With an aggressive plan to grow revenue and profits, Bergh launched a "Four-Part Strategy" that emphasized: 1) Rebuilding the "profitable core" products that include jeans and Dockers, 2) expanding into developing markets-- Brazil, Russia, Indica and China, 3) becoming a "world class omnichannel retailer" through greater online retailing and company-owned retail stores, 4) achieving "operational excellence" by cutting costs, driving cash flows and becoming "more data driven and financial disciplined to free up money to invest in technology and innovation." Toward goal four, the Eureka Innovation Lab was opened in 2013, aiming to revamp women's denim line. Eureka was a response to the rise of comfortable, athleisure wears such as yoga pants. This is where the company launched innovations like "four-way stretch" using soft fabric.[49]

Overall, corporate financial strategy indicates that Levi Strauss has operated like a generic cost leader relying on cost cutting, lower prices of jeans and financial discipline. Sold at a price point of $20 to $30, Dockers, Denizen and Signature brands have different design and product features serving varied customer needs.[50] Dockers symbolize "the spirit of khakis and define business casual. Since its introduction, the brand has focused on men's khakis and the essential goods to go with them."[51]

Sold through mass retail channels like Target and Walmart stores, Signature and Denizen brands claim to represent "high-quality and fashionable jeans wear at a value price." In ads, these brands emphasize best-price value and customization to customers' needs and preferences. Denizen's brand mantra is to include "a variety of jeans to complement active lifestyles and to empower consumers to express their aspirations, individuality and attitudes."[52]

Despite the emphasis on "active lifestyles," "individuality," and consumer empowerment, the sub-branding strategy is fundamentally geared to the bargain hunter. Overall, it is consistent with the goals of financial discipline and maximized cash flow as stated in Annual Reports and executive speeches.

In March 2019, Levi Strauss went public again under the ticker symbol LEVI. This was the second IPO since the family had taken the company private in 1985. The IPO was priced at $17 per share, above the target range of $14 to $16. It sold at least 36.7 million in shares raising about $623.3 million and at a valuation of $6.5 billion.[53,54] The key reason for going public was "about getting liquidity for the Haas family." The second IPO would allow the family to cash-out some of its holdings without sacrificing control. Because of the dual-class shares structure, Levi would still keep control over 81% of the total shareholder voting power. Furthermore, going public would give the firm more capital to invest in new businesses (Eureka Innovation Lab), improve sales and possibly "sweeten" employee compensation. The company also noted its intention to use the earnings for "working capital, operating expenses, capital expenditures, and potentially for acquisitions or other strategic investments."[55] At a time when all the top rivals (VF Corp, Gap, American Eagle Outfitters, Target, Inditex and H&M) were publicly traded, Levi Strauss had no other option but to issue a second IPO.

Brand Revitalization Strategy

Companies adopt brand revitalization when their products reach the "maturity" stage of product-lifecycle (PLC) and profits drop significantly. Revitalization strategy "involves an attempt to bring the product back in the market and secure the sources of equity i.e. customers."[56] For brand revitalization to be effective, however, consumers should be sufficiently knowledgeable about the company history and its products. This type of knowledge accumulates through brand awareness, appropriate exposure to marketing strategies, and the brand's unique appeal that forms a particular image in customer's mind. It is therefore imperative that the brand is well differentiated from other brands. Differentiation requires that a product occupy a "distinctive place in the minds of the target market."[57] Locating the product in such a manner requires that the brand be successfully differentiated from its competitors so that the target market realizes its distinctive benefits and potential.

Furthermore, a brand's message is more effectively communicated when buyers are "provided with a compelling argument as to why they should choose a particular brand from a wide variety of alternatives available to them."[58] According to Porter's generic strategy framework, marketers can work toward this goal either through *best- value pricing strategy* or *product differentiation strategy*. The former strategy emphasizes the brand's potential of good quality even at a low or competitive price. This can be seen in Uniqlo's slogan "made for all," which makes it "the world's number 1 casual brand" or "Japan's alternative to GAP."[59]

In the second strategy (*product differentiation*), marketers aim to meaningfully differentiate the brand from other brands based on superior quality, premium pricing, or some intangible benefits. Levi's earlier strategy was aimed at differentiation. Pecarski reminds us about this unique attribute of Levi's as he writes: "Small, subtle branding features such as the arcuate, rivet and red tab are important not only because of their tangible, practical aspects, but arguably even more so because of the intangible values associated with them." [60]

According to Thomas and Kohli, the high cost of launching a new brand convinces companies to revitalize an existing brand. They suggest that "a brand may be worth reviving if there is significant residual value in one or more of the components of brand equity."[61] Certain brands are candidates for revival if they still enjoy high levels of awareness and consumers "hold strong, favorable and unique brand associations."[62] Even when declining, some brands can remain prestigious through positive sales, favorable brand image and residual brand identification. Given the proper diagnosis of decline, a competent management team and marketing strategy, they can regain some of their "former glory" and even keep their leadership position and even build on it.

Consider the transformation of the House of Chanel during the 1980s. Chanel was a sleeping beauty at best and at the worst a "near-dead brand" until Karl Lagerfeld rediscovered during the 1980s. Upon becoming creative director in 1982, Lagerfeld successfully turned Chanel around by revamping its image and making investing in a styling update, especially in bags and a "ready-to-wear" (made for the general market) fashion line, without cheapening the brand image.

Because of high awareness and positive brand image, we believe that Levi qualifies for brand revitalization advanced by Thomas and Kohli. Levi's products are sold in more than 110 countries and in more than 50,000 retail sites globally. The Americas, Europe, and Asia-Pacific host manufacturing, distribution and finishing services. Outside the U.S., blue jeans appeal to a growing middle class with strong brand awareness and Western style of consumerism. Key revenue generating markets are U.S., France, Germany, Mexico, China and the U.K. In 2015, the Americas region accounted for 61% of Levi's total revenue while Europe and Asia (including Middle East and

North Africa) accounted for 22% and 17% respectively.[63]

Faced against intense competition and loss of market share, companies usually resort to a *cost leadership (low price) strategy* in the hope of boosting sales. Known as "milking the brand," this strategy further contributes to a brand's weakened image, for which Levi's is not an exception. The company tried milking the brand by banking on past reputation, overseas expansion and price cutting rather than investing in its quality and distinctive styling. When brands are milked, however, customers do not always respond to lower prices because of inadequate differentiation even when brand awareness is high or even sales numbers are positive. This further accelerates the brand's demise. For instance, despite replacing Japan as the largest market in Asia-Pacific and its growing middle class, China has not met the expected potential for sales growth, as evident in the Denizen sub-brand being discontinued in 2012. Although Denizen was priced at 30%-40% lower than the classical Levi's, it failed to meet the expectations for sustaining low-cost/low-price strategy.[64]

Millennials, also known as "Generation Y," are a key target market for jeans wear. To reinforce brand appeal, marketers use "psychographic segmentation" which entails dividing the market "into groups on the basis of psychological/personality traits, lifestyles or values."[65] As a branding strategy most appropriate for universal clothing like jeans, psychographic segmentation assumes that customers display very different psychological attributes even within the same demographic, social class and geographic group. Born between the early 1980s and mid-1990s, millennials accounted for 23% of the total U.S. population in 2016.[66] Following the latest fashion trends, Generation Y relates to socially conscious messages, emphasizing how clothing is produced in compliance with environmental sustainability or "made in the USA" by a unionized workforce with good wages and benefits.

While we do not know whether Levi Strauss has successfully appealed to Millennials, it has presented itself as a "proud" supporter of the environment and sustainability as part of its branding strategy. Striving for both profitable and sustainable business model, it has emphasized corporate social responsibility and eco-fashion in the hope that consumers will purchase "sustainable denim" as a way of saving the planet. Since 2009, the company has partnered with "Better Cotton Initiative (BCI)" in the hopes of using water more efficiently and cutting back on pesticide use in cotton cultivation. Under this initiative, farmers would reduce input costs for improvement of labor standards rather than for profit margins only.[67] Several initiatives are listed on Levi's website to increase awareness of its business model such as employee well-being programs, guidelines for suppliers regarding water quality standards, "restricted substances list," recycling ("making new jeans from old denim"), nurturing local entrepreneurship and "financial incentives for garment suppliers in developing countries to upgrade environmental, health, safety and labor standards."[68]

Despite still being a top jeans maker in terms of market share, Levi Strauss is facing challenges in the path to brand revitalization. Recently, the company seems to favor innovation for the sake of innovation rather than returning to its roots as a quality jeans manufacturer. For example, in a partnership with Google called "Project Jacquard," Levi is developing garments capable of haptic feedback, a form of digital communication triggered by motion such as found in a video game joystick or a touchscreen. A lengthy article in *Wired* pointed to Project Jacquard's use and limitations. Celebrities like Lady Gaga wore a haptic-capable dress to an iTunes festival in 2013 that blew bubbles as she walked. As for the Levi's project, there does not seem to be much of a practical application except measuring your heartbeat for which gadgets already exist.[69]

Managerial Implications and Lessons

Following Thomas and Kohli,[70] the broadest takeaway from this study is to avoid "temptation to milk the brand," which is a troubling sign of the classical brand's weakened position. Levi Strauss can consider targeting the middle-to-upper income pool in emerging markets with a price range geared to reasonably priced yet quality jeans. In 2012, the Latin American jeans market was worth $14 billion with the largest economies driving Levi's sales—Mexico, Brazil, Argentina, Chile, Colombia.[71] With Mexico as a leading market, followed by Argentina, Colombia and Chile as "second-tier" markets, Brazil is underrepresented in Latin America. As the host of 2016 Olympic Games, Rio served as a niche market to capitalize on emerging market trends such as growing middle class, appeal of brand names, and higher disposable incomes.

Given that Latin America is falling short of expectations solely in term of sales, the company needs to look for a moderately higher price segment for generating best value sales and investing in the brand by updating its styling. This may entail reinforcing the brand image through "new positioning that is relevant and will stand out (differential effect)."[72] As the world's largest and best-known jeans company, Levi still holds residual amount of equity in the minds of consumers. When carefully pursued, brand revitalization is worth launching due to the company still being perceived as a flagship "premium brand" globally.

The third implication concerns revising the pricing strategy. Levi's current price point is $50 and even less. Those jeans are sold at two groups of fast-fashion, American retailers, such as lower to middle end shopping outlets.

Walmart and J&C Penny sell for $29 dollars and the classic 501s sell for 50 dollars at Macy's. At American fashion retailers like Macy's, its jeans opening price point is around $70 and even less. The *Signature* brand sold in Walmart is geared towards a lower income, working class consumer. Their price is in line with H&M and other mass fashion retailers.

Hypothetically, pricing strategy around $90 can be effective since that targets the middle class rather than Walmart shoppers who prioritize price. This price point is currently offered at places like Urban Outfitters, which sells vintage Levi's jeans. It also avoids competing with the carriage trade manufacturers whose blue jeans can be found in high end US fashion retailers like Saks Fifth Avenue and Bloomingdale's for around $200 and even more. This niche is not fully being served. As vintage styles are coming back in mainstream fashion, a pair of classic well-tailored jeans would appeal to brand conscious consumers if they embodied the brand's quality past.

It would make sense for Levi's to remake its imagery and "brand mantra" consistent, visible and authentic to loyal customers. As one of the most recognized trademarks in the world, "Two Horse" logo is unique and immediately detectable for its history, quality, and use by the iconic cowboys and miners that were its first customers. Current trends in the jeans market require a shift of strategy to go beyond customer loyalty and to identify a "shifting loyals" or "switchers"—for example, those consumers who migrate from one brand to another. Since Levi Strauss has lost market share to a new generation of jean makers and private labels, it has difficulty appealing to older generation of dissatisfied shoppers as well as the "lost generation." Levi's brand president, James Curleigh, once described this group of customers as: "fans who love us, but quite frankly left us," and "fans who don't really know who we are."[73]

Within a marketplace relying on trends, Levi Strauss management is in the unenviable position of trying to hit a "moving target." In a teaching note written by Professor David Jobber of the University of Bradford School of Management,[74] the problem of appealing to teenagers is discussed. When the baggy jeans associated with hip-hop became fashionable in the 90s, Levi's were considered too tight and dismissed as old peoples' clothing. But that trend died out eventually only to be replaced by torn jeans. Indeed, as fashion has oscillated over the past several decades, there will always be a niche for the "classic" look embodied in Izod, Ralph Lauren and other manufacturers striving for timelessness. More importantly, the quality of a garment has become all-important in a period of tightened budgets. Manufactured originally for cowboys and miners, the classical 501 jeans were a symbol of ruggedness and longevity, something that would appeal to today's consumer whatever the trend of the moment. It would be a complement to these sensible strategies to step up its commitment to quality, a hallmark of the product line until relatively recently.

Finally, it is important to reach out to behavioral consumers. This group of buyers include "split loyals" who wear more than one brand. For example, customers wearing premium labels such as JBrand, True Religion, 7 for all Mankind can be either "shifting" or "split loyals." Levi should find a way to convince "split" or "shifting loyals" to come back to its jeans by considering a more classical brand strategy. This is especially true for fashion conscious female buyers who are interested in printed, colored and textured denim. Printed denim is a niche market that has not been fully served.

Conclusion

In this case study of Levi, we utilized Porter's framework and provided in-depth analysis of how Levi's financial strategy has been inadequate to compete in the fast-changing jean industry. Perceived quality and past reputation drive consumer demand for iconic fashion brands. Since creating new brands entails high costs, companies are increasingly seeking to revitalize "dying" brands as a way of coming back.[75] If carefully and strategically managed, brand revitalization can mitigate decline in other areas and can even put companies back to sustainable growth, as we have seen in brands like Harley Davidson, Cadillac, and Chanel. As the world's best-known jeans company, Levi Strauss struggled in the last two decades to maintain its identity and stay relevant amidst changing consumer trends and harsh competition.

The dilemma between pricing strategy and quality has been a key issue in marketing. The research points that companies using mixed strategies can yield higher "incremental performance" than those following a single competitive strategy.[76-79] Within a marketplace relying on trends and polarization between premium and economy jeans, however, Levi's management is in the unenviable position of trying to hit a "moving target." This ultimately reveals a relative inability to identify its market and the need for gearing the brand to a quality-minded customer base.

This case further demonstrates how Levi's pricing strategy fails to distinguish the brand from the new entries and provokes decreases in sale. Levi Strauss enjoys a residue of popularity that enables it to maintain market share resting on the reputation it earned over the decades. Returning to its roots as quality jean makers is crucial if the company hopes to put its brand back to growth and to sustain its global leadership position. It would be possible for Levi to boost customer satisfaction by returning to the top-of-the-line quality that earned it loyal customers in the past, as well as developing strategies to win over new customers in emerging markets who have never been familiar with the classic brand's unique appeal. This means joining other garment companies striving for the "classic" look such as Izod, Ralph Lauren and Patagonia.

This case has provided some insights and directions which should prove useful for managers in reviving and evaluating their declining brands. It also makes a case for MBA and marketing courses in pricing strategy and provides questions that can be useful for business courses. It might be interesting to see more case studies on declining companies and examine whether their turn-around strategies can succeed, especially in turbulent times like the one we are going through. This can provide important insights for financial analysts hoping to value such companies properly.

Discussion Questions

- *Where does Levi Strauss stand in relation to competitive advantage and brand association today?*
- *What unique challenges does Levi's industry face and how is the chosen business strategy responding to these challenges?*
- *What can the fashion industry learn from Levi Strauss' transformation?*
- *What strategies do managers recommend for the company to gain and sustain competitive advantage in its industry?*
- *What implementation problems do you envision in chosen strategy?*

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