

Levi's Wants to Convert Social Ambition to Cash

Thomas Lee | Mar. 13, 2015



Technician Mark Dominguez works on a pair of jeans in the finishing room at the Levi Strauss innovation lab in S.F.

One year ago, Levi Strauss & Co. CEO Charles “Chip” Bergh said the iconic San Francisco apparel maker would launch a major “productivity initiative” to wring profit and efficiencies out of the company’s far-flung operations around the globe.

Such strategies usually mean two things: cost cutting or layoffs. Sure enough, the company eliminated 1,000 mostly corporate positions.

Two months later, Bergh told a green conference that people can have a smaller impact on the environment by wearing clothes longer.

“I think Levi Strauss is the ultimate in slow fashion,” Bergh said. Levi’s is committed to making quality jeans that should last longer “than most people’s waistslines,” he joked.

The irony: The CEO of a company with foundering sales was essentially telling people to buy his product less frequently. Yet Bergh didn’t say anything out of the ordinary — at least as far as Levi’s is concerned. And now the company’s formidable goal is to make a sustainable approach a profitable one.

Founded in 1853, Levi’s has long led the industry in environmental protection and social justice.

It was one of the first apparel makers to release the names and locations of all contract and licensed factories that manufacture and finish its products. Levi’s also pioneered efforts to regulate the use of chemicals in making denim.

Last year, Levi’s said, it made 100,000 pairs of jeans with 100 percent recycled wastewater, helping to save 12 million liters of water. The company has also teamed up with the World Bank to provide financial incentives like low-cost loans to suppliers who meet sustainability targets.

“Levi is a great company,” said Patricia Jurewicz, director of the Responsible Sourcing Network for **As You Sow**, a nonprofit group in Oakland. “They do a lot of work in making sure they have a responsible business.”

Financial performance

Despite these lofty goals, its financial performance has faltered. The maker of such brands as Levi 501 and Dockers has eked out a meager 1.5 percent sales growth over the last two fiscal years, according to SEC documents. (Levi’s is a private company, but still needs to report financial data because of its publicly traded bonds). Last year, revenue totaled \$4.75 billion, down slightly from 2011. So how can Levi’s balance its financial and social goals when the apparel industry has become more complex?

Thanks to the Internet and a growing crowd of foreign apparel chains entering the United States, American shoppers purchase, use and discard clothing at accelerating rates. And competitors ranging from Target and Gap to H&M and Uniqlo are more than happy to oblige.

“Fast fashion is becoming faster and faster fashion,” Juerewicz said. “We just all need to stop and take a breath.”

Such breakneck consumption generates higher sales but inevitably strains supply chains and threatens the environment. Apparel makers and retailers are constantly scouring the developing world, looking for ways to stitch together shirts and pants at the lowest possible price, sometimes with deadly consequences. In 2013, a building housing a garment factory in Bangladesh collapsed, killing over 1,000 workers. That’s what makes Levi’s commitment to green business practices all the more impressive. In fact, Levi’s wants to eventually take green a bit over the top.

Michael Kobori, vice president for social and environmental sustainability, said that he envisions a day when 100 percent of Levi’s apparel is “closed loop” — people wear the clothing for years and then return it to Levi’s to be recycled into new garments.

For now, the goal is to generate 100 percent of annual sales from “sustainability-enhanced” apparel — for example, jeans that use less water or are made from cotton grown with fewer pesticides, he said. Kobori estimates that such apparel currently makes up \$500 million of annual sales, compared to zero in 2010.

Operating profit

But consider this: Since 2010, Levi’s has generated an average operating profit margin of 7.9 percent. In other words, the company makes about 8 cents (before interest and taxes) from every dollar of sales. By comparison, from 2009 to 2013, rival Gap Inc., also based in San Francisco, took home 12.4 cents for every dollar. Thus the need for a “global productivity initiative.”

While several things can influence profit margins, Levi’s could probably make more money if the company did not spend resources on sustainability, said Paul Schwada, founder of Locomotive Solutions consulting firm in Chicago.

Of course, social good can boost esoteric things like corporate reputation and brand equity, Schwada said. But can it actually help the company sell more clothing?

Twenty years ago, Levi’s focus on the environment had more to do with staying true to the company’s historic values, Kobori said. Now, it’s about generating cash.

Levi’s strategy is to link sustainability with innovation. Yes, some people will buy jeans because they are good for the environment. But perhaps more shoppers would purchase something if they knew the skill and creativity required to make those waterless 501s.

'Surprise and delight'

“People buy Levi’s because of the style, quality and fit,” Kobori said. “But we do believe that, all things being equal, if we can surprise and delight them with what we are doing around sustainability, it’s additive. Consumers are looking for innovation and newness.” In other words, innovation doesn’t just mean the product itself but also how the jeans were made.

“That’s pretty smart,” Schwada said. “That way, they just doubled the number of potential customers: the ones that care about the environment and the ones attracted to innovation.”

I hope it works out for Levi’s. The company no doubt deserves respect for its social ambition. The question is whether the company can convert that respect into something meaningful on the balance sheet.

<http://www.sfchronicle.com/green/article/Levi-s-wants-to-convert-social-ambition-to-cash-6133314.php>