Can Levi’s Ever Return To Its 1996 Peak?

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Between 1996 and 2010, Levi Strauss' sales fell from US$7.1 billion to US$4.3 billion as competition intensified between the leading apparel companies and it has not been able to make any significant steps towards returning to its 1996 level of sales over the review period.

While it remained the global market leader in jeans in 2010, its value share declined by over one percentage point between 2005 and 2010. Euromonitor International asks why and discusses whether it can return to its former glory.

Pricing remains a major issue

Whilst the global jeans market showed strong value growth of 6% in 2010, jeans companies have had to face the massive challenge of soaring cotton prices over the past year and this remains a major issue. With the price of raw cotton more than doubling in 2010, jeans specialists have had to think long and hard about effective strategies to overcome this predicament.

Levi Strauss has revealed that it increased its prices in 2010 in order to protect its margins. This is a strategy being implemented by the majority of apparel companies which nevertheless may make it difficult for the company to achieve strong growth, notably in regions with weak economies such as Western Europe.

In its Q1 results to February 2011, Europe was the company's weakest region in terms of growth, with reported value sales growth of just 2% compared to 8% and 12% in the Americas and Asia Pacific respectively. Western Europe accounted for 16% of Levi Strauss' total sales in 2010 however, evidence that the region is very important to the company's overall performance.

In addition, low-priced private label brands dominate in the region, so Levi Strauss would be wise to implement minimal price increases in both Western and Eastern Europe in order to prevent a further growth slowdown.

Elsewhere, price rises will be necessary to improve margins as Levi Strauss' net income decreased by a significant 28% in its 2011 Q1 results, which shows the huge impact of the cotton crisis. However, it will need to carefully select the ranges where it can introduce price hikes with a minimal impact on sales.

Its premium ranges would be a good option, as consumers buying into them already prioritise quality over price.

Dockers an ongoing struggle

Dockers is a smaller brand compared to the Levi's brand with a value share of less than 0.1% of the global apparel market. Its main focus is on men's khaki trousers and, in 2010, it accounted for 9% of Levi's total value sales.

However, Levi Strauss has expressed concern about its weak performance and, in its main market, the US, its share declined from 0.2% to 0.1% between 2004 and 2010. The brand has suffered as fast fashion has become increasingly popular at the expense of casual styles.

The brand has also struggled in countries where it has a much smaller presence, such as India, with the decision made to withdraw Dockers from the country in 2009 as the company struggled with the positioning of the product, described as 'sandwiched between jeanswear and formal pants', according to Levi Strauss India's Managing Director Suman Chatterjee.

Levi's strength lies in innovation

2010 saw the launch of Levi's Denizen brand, specifically aimed at the Asian market, and its Curve ID range, which offers a tailored fit for women with different curve levels. In addition, the WaterLess collection, manufactured with significantly less water, was launched in January 2011.

These three important initiatives have helped the company to generate a great deal of publicity and show that it is committed to continuously enhancing its product portfolio. Launching a range specifically for the Asian market is a wise move as it is currently one of the world's fastest growing apparel markets and is expected to maintain high value growth rates over the forecast period.

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