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Designing a New Business Pattern - RANKING 4

The newest CEO of Levi Strauss has managed to stitch together a solid business strategy and fashion a new image. Now in the final year of a three-year turn-around plan, the question remains, will it work?

Levi Strauss & Co. was in its third year of financial decline when Philip Marineau joined in 1999. But Marineau immediately went to work implementing a turn-around plan that would give the clothing giant a kick in the pants.

In leading the fourth largest privately held company in California - it went public in 1971 and later returned to private ownership in 1985 in a $3.4 billion leveraged buyout - Marineau has worked hard to convince consumers that Levi jeans really are cool.

No easy task. Since the early 1990s, the San Francisco-based denim company had been coming apart at the seams. During the last decade, it lost much of its men's market share to newer brands. And its efforts to convince the youth market that wearing Levi jeans was en vogue failed. Marineau, a former Pepsi-Cola executive, recognized that the famed company needed to focus more on being a marketing and product-driven organization rather than a manufacturer.

Levi is now at the end of that three-year turn-around plan and 2002 stands as a crucial test for both the company and its CEO.

If the past is any indicator of the future, the bet is on Marineau since he is no stranger to marketing. He spent two years at Pepsi-Cola, where he was responsible for waging the Cola Wars against Coca-Cola. Following that, Pepsi reported a 6% volume increase in 1998. And during the last eight months that Marineau led Pepsi, the beverage company reported its biggest market share in nine years.

Prior to Pepsi, Marineau served as president and COO of Quaker Oats, where he is credited with growing the Gatorade brand from $85 million in revenue to $1.2 billion, making it a global powerhouse in the sports-drink industry.

At Levi, he didn't hesitate to make changes. First, he slashed the company's e-commerce program, replacing it with a site that directed consumers to retail partners such as JC Penney and Macy's. Steering Web surfers toward the partners eliminated the competition between the company and those retailers. It also allowed Levi the benefit of Internet sales without hassling with online shopping headaches, such as fulfillment and customer service.

Early on, critics of Marineau charged that his methods were unsophisticated as judged alongside the Internet-savvy tech industry. Of course, that was during the Internet's heyday when every techno geek thought every company name should end with dot-com. But

Marineau’s formula paid off. Online sales jumped more than 400% during the first two years after Levi gave up selling jeans directly to consumers.

A new century

But thus far the new millennium has been unkind to the company that dates back to the 19th century. Earlier this year, the 149-year-old jeansmaker announced it would close six of its eight remaining U.S. plants this year, including an 81,000-square-foot facility in San Francisco. Levi also handed roughly 3,600 employees - or 20% of its entire workforce - pink slips.

While the company makeover introduced new clothes and a new image, it has done little to boost shrinking sales for the aging icon. After peaking at $7.1 billion in sales in 1996, revenue steadily has declined to last year’s $4.3 billion, down 8.3% from 2000 sales of more than $4.6 billion.

That's the bad news. The good news, financially speaking, is that the turn-around has helped to reduce debt.

As of late February, total debt stood at nearly $2 billion, a reduction of more than $1.6 billion since the 1996 management buyout that made Levi a private company.

Then Levi finished its first quarter of 2002 with profit of $44 million, a 47% rise from $30 million in the same quarter a year earlier. Marineau says the company is seeing growth in Europe and some portions of its Asia Pacific business.

"The turnaround is on track," Marineau said. "We still anticipate some bumps in the road over the coming months, but we expect to stabilize sales worldwide by the end of the year."

- Becky Bergman