

# What's different about Levi's

The brand has defined American denim since the 19th century by remaining a pioneer. Now Wall Street will have a say in its future.

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Contrary to mythology, Levi Strauss never sold his famous dungarees to "49ers"-era prospectors (he opened a dry goods business during the Gold Rush — the jeans would come later). But the company he founded 166 years ago staged a gold rush of its own last month in the form of an initial public offering that swiftly topped its opening share price and left it with an \$8 billion valuation.

It's the apparel maker's second trip to Wall Street (the first, in 1971, "was one of the largest ever" then, too, according to the New York Times) — in a history that has marked time in three different centuries and supplied it with a signature product that, despite its own occasional missteps and the vagaries of fashion, continues to define American denim for a global audience. Its jeans are sold in some 50,000 retail locations in more than 110 countries, including through mass merchants, specialty retailers and department stores, plus about 2,900 branded stores and shop-in-shops, of which 750 are company-operated stores in 31 countries, according to Levi's most recently published annual report.

"Levi's is the quintessential American brand," Lee Peterson, executive vice president of brand strategy and design at WD Partners, told Retail Dive in a phone interview. "And they're the gold standard when it comes to reviving a classic brand. They did all the right things."

## The two-horse brand

Strauss founded his dry-goods company in San Francisco in 1853, but it was two decades later that, thanks to the innovation of reinforcing rivets developed by his partner in the effort, tailor Jacob Davis, his first pair of blue jeans were introduced. To market them, the company developed the "two-horse" logo still found on its leather patches — an image of two horses, each pulling a leg in opposite directions, to illustrate how the denim workpants wouldn't break even under great strain.

"We understood that not all of our consumers spoke English as their first language. We also knew that not everyone in the remote West was literate," according to the company's website. "With a memorable image to guide them, our early consumers could walk into

their local general store and ask for 'those pants with the two horses,' and they would get a pair of Levi's® jeans. In fact, the product was called 'The Two Horse® Brand' until 1928, when the company adopted its Levi's® trademark."

The concept was reprised in a cheeky update from 1989 involving cars instead of horses. In that era, as with the patch logo, the company's ads were also aimed at a wide swath of customers, featuring all kinds of people, not just speaking different languages but also living different lifestyles: blue-collar types, artists and musicians, urbanites and rural folk, and men and women of all ethnicities and ages.

"Levi's brand and product are rooted in authenticity and originality. The brand is a celebration of democratic and inclusive ideals," Levi's SVP and Chief Marketing Officer Jennifer Sey told Retail Dive in an email. "We have always been a brand that connects people. Cool city kids, hipsters, people from the heartland, moms in the suburbs. They all wear Levi's and they all wear them their own way. What you are seeing in the ads is simply a reflection of who we are. Of the inclusive and democratic nature of our brand."

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## **The sales shrink**

But the company, which in 1985 Strauss's descendants took back as a private venture, saw sales slip in the 1990s as cheap jeans from the likes of Old Navy and Target flooded the market, and again later as upscale brands like 7 for All Mankind and Diesel got the attention of wealthier shoppers with higher-priced trends that Levi's missed. The brand was left with mid-level prices that didn't have much of a consumer base and a style without much of an audience. "Classic" began to slide into "outmoded."

"I remember seeing Levi's jeans ads in the '80s, but then it kind of goes away in the late 90s," Peterson said. "The hardest brands to manage are the classic brands, like Ralph Lauren, Levi's, Doc Martens, because you have to stick to your guns, you have to be 'that.' Levi's has gone up and down." Things went mostly down as the Great Recession hit, with shrinkage not just in the company's 501s but also in its sales performance. Net revenue for 2009, for example, tumbled 7% year over year, with margins and profit both contracting, according to the company's annual report.

Then the company got lucky. "The difference between now and what happened to them in the late 90s is they just also happened to catch a wave," Peterson said. "Hipsters were wearing Levi's before Levi's realized that hipsters were wearing their clothes, but somewhere early on in this wave they caught on. They caught the hipster thing smack on."

They took advantage, and have since, with help from the kind of advertising campaigns that were iconic in the 80s. An example of the latest iteration of the brand's democratic marketing is its exuberant "Circles" ad, which, in addition to its message of inclusivity,

shows all kinds of Levi's merchandise and demonstrates the denim's ability to stretch as all kinds of people dance. The ad helped propel Levi's on social media ahead of its IPO, according to Gartner L2.

"[E]ven though fast fashion brands like H&M, Mango, and Zara accounted for half of the top ten YouTube videos in Gartner L2's study, Levi's 'Circles' video received 25 million views of its own, serving as an anchor for the twelve fifteen-second clips it released to highlight specific dances from within the main video," according to a Gartner L2 blog post. "These shorter videos netted an additional four million views combined. With the news of its IPO on the horizon, a continued strong presence of social media, and its best year yet in Gartner L2's digital ranking, Levi's might just be outfitted for success to make the final stretch."

Peterson deems "Circles" "super cool," and said its vibe is carried through to its physical marketing, too.

"Then they do these physical stores that are phenomenal. Their stores are just as cool as the ad," he said. "And then I think their coup de grace — let's go public. All that is not easy, it's all hard work. That's always going to be a challenge for Levi's — they have to attempt to take that classic brand and evolve it one way or another on the whims of fashion."

It helps that rivals Wrangler and Lee — two other classic American denim brands that, along with Levi's, expanded from workwear into fashion thanks to denim-clad renegades in mid-20th century movies that captivated Baby Boomer teens — don't seem to be up to such a task. Owner VF Corp last year let them spin-off in order to focus on better-sellers like Vans and The North Face.

"Wrangler is not the quintessential American brand like Levi's or Chevy or Ralph Lauren, but it's up there. I think there's a lot of business to be had because of those brands. They [at VF] either don't have the capability or the gumption, or they tried and realized they don't have the skill set," Peterson said. "It's hard work — it involves every single facet of the company. You have to have a whole division dedicated to that brand — the manufacturing, the logistics, the brand, the design, the marketing."

Other analysts agree that denim in general and Levi's in particular have the wind at their backs, at least for the moment. Along with its longstanding inclusive messaging, the brand's progressive stance on other cultural issues also comes at an opportune time.

"After a lot of work over recent years to rebuild the brand and its sales, this was arguably the right time for Levi's to go public," GlobalData Retail Managing Director Neil Saunders told Retail Dive in an email. "Denim is back in fashion and more consumers, especially in the US, are now buying into the fabric. Second, Levi's has also made a push into non-denim categories and this is helping to provide new growth opportunities. Third, the brand has put a lot of effort into defining its values around issues like guns and the environment. This clear position has helped it to gain traction with many younger shoppers."

There's room for improvement, especially in e-commerce. Over the last 12 months, Levi's online sales grew 31% year over year, but True Religion's grew 150% and

Lee's grew 121%, according to data emailed to Retail Dive by e-commerce intelligence firm Edison Trends. Also in that time, Levi's online market share dropped from 69% share to 58% as True Religion (19% to 31%) and Lee (5% to 7%) made gains, according to that research. Still, Levi's averaged 103% higher revenue than True Religion, and Levi's was the highest online revenue-earner for every month out of the last twelve, except December, Edison said.

There's also evidence of a runway to go further. Researchers at YouGov say "the denim retailer seems to be poised for sartorial domination." A third (32%) of U.S. adults say they're "open to buying an item from Levi's when next shopping for clothing, shoes, accessories, or luggage, compared to 22% for Wrangler and 17% for Lee, according to a [YouGov report](#) emailed to Retail Dive. Older consumers are more likely to consider the brand: Purchase consideration is at 33% for those older than 35, 32% for those aged 35 to 49, and 26% for those aged 18 to 34, according to that study.

## Customization

In a way, a pair of Levi's has been sold with the promise of a "custom fit" from the get-go. Although like other denim manufacturers it has sold plenty of blue jeans made with pre-shrunk fabric, the brand has [touted its "shrink-to-fit" 501s](#) for eons. That speaks to an essential appeal of denim, derived from the way cotton shrinks and indigo dye fades: that it will develop a unique shape, fit and pattern as you wear it, and hold memories.

"That raw pair of Levi's that you bought when you were a freshman in college — and on your wedding day your soon-to-be-wife tells you to throw out your nasty jeans, and you can't," Paul Dillinger, Levi's head of global product innovation, told Retail Dive. "Because that mustard stain is a souvenir from that incredible day at the ballpark. And what's not happening is it's not being replaced by another resource-laden item. The longer we can stay in your closet, the more you repair, the better you've increased the likelihood that then you don't have room for the fast-fashion crap out there."

Over the years the company has taken that even further. In the early 1990s, in the back of massive, multi-story locations in major cities, the brand offered [custom tailoring services](#), with fits determined with the help of computers, and refined that in 2015 with its ["Lot 1 experience"](#). Now, tailoring has been brought to the center of 185 stores, and as of next fall, online shoppers can order custom designs thanks to its FLX operations, Marc Rosen, Levi's EVP and president of direct to consumer, told a retail industry audience at Shoptalk in March. It's a customer-first innovation much like Jacob Davis's rivet, which was initially employed "based on gold miners' feedback that their jeans were ripping," he said.

"From the [1973 Denim Art Contest](#) to our 185 Levi's Tailor Shops globally today, Levi's have always been the ultimate canvas for authentic self-expression," Rosen told Retail Dive in an email. "Historically, customization was a very local and personal experience. You would either do the customization yourself with embroidery, sewing, pins and patches. Or if you weren't a craftsperson, you'd have to take your denim to your local tailor or artist. Customization and personalization is becoming more and more important to our consumers globally. And I believe that we are at a very unique time where the

technology development is keeping up with (and even surpassing) rapidly increasing consumer expectations for a seamless and personalized retail experience."

Levi's store, San Francisco  
*Credit: Daphne Howland*

There's a growing market for customized purchases, according to Deloitte, which found that 25% of consumers "are willing to pay more to receive a personalized product or service" and 22% are "happy to share some data in return for a more personalised customer product or service."

Peterson downplays customization's impact on Levi's sales, however: "The technology is great, and where they would sell one from the old store now maybe they'll sell 12," he said. "But they're not going to go nuts on it."

But in his email to Retail Dive, Rosen insisted it holds great promise. "We think the transformation towards customized personalized product is huge. It is a shift from selling what we make, to making what we sell, and that transforms every single part of our business model — from product development to store experience to supply chain to marketing."

Some analysts also see great potential in such efforts, in part because of the impact deep into the supply chain. The company's Project F.L.X. ("future-led execution"), leveraged for its customization offer, was developed to shift denim finishing from manual labor and chemical processes to machine technology that makes it cleaner and faster.

"CEO Chip Bergh has successfully drawn upon 28 years in brand management and marketing to instill a culture of intense focus on the brand, innovation and customer," MKM Partners Managing Director Roxanne Meyer wrote in a recent client note emailed to Retail Dive. "We view the [Levi's research and development hub] Eureka Lab and Project FLX (which looks at how jeans are designed, made and sold) as a meaningful catalyst to deliver on product innovation, and feels like it can be Zara ... on steroids in terms of enabling management to react to trends in real time and reducing inventory."

## **The future**

That all remains to be seen. The legacy of innovation that began with Levi's rivets has continued thanks to its customer focus, and that's "good for the business short- and long-term," Ray Hartjen, marketing director at in-store analytics firm RetailNext, told Retail Dive in an email.

The company has righted its performance in the years leading up to its IPO. Fiscal 2018 net revenue rose 14% to \$5.6 billion, according to a company press release. Revenue in the Americas alone rose 10% to \$3 billion, thanks to strong wholesale and the company's expanding retail network, and the company gained strength abroad as well, with margins and profit expanding in all regions, the company also said.

"In Silicon Valley, we call Levi's America's original start up. Part of its iconic, timeless appeal lies in its product, but don't for a second think the product isn't changing," Hartjen said. "Levi's brand is iconic because it's trusted by consumers — trusted for innovation, quality, performance, durability, style, fit and more. Levi's listens to its shoppers and empowers them to help guide the company. Levi's has been killing it for a number of years now, and its recent IPO now allows it to get some public validation for what it's been doing right — and, it's been doing plenty right. Levi's isn't just killing it in the denim segment, it's killing it as a manufacturer and retailer. Every Levi's channel is growing, including its robust brick-and-mortar channel, in every single one of its geographies. Levi's is teaching other brands how to go to market."

Now that will have to be accomplished as a publicly traded enterprise. Sey called it a new chapter that marks the launch of the next 166 years for the brand. "Going public is not the end it is simply a new start. We just had our best year in over 2 decades and going public allows us to invest in the business to grow further," she said. "We will not change who we are which has served us for 160+ years. Levi's will continue to lead the denim category, delivering all the jeans you didn't even know you were looking for plus all the incredible stuff that goes with them. We'll do it with integrity and we'll continue to assert our brand's values of authenticity and self-expression."

But, with investor demands added to its challenges, along with the unpredictability of fashion and the perennially stiff competition in apparel, its trip to Wall Street does invite some risk.

"Denim could fall out of favor again, which could damage growth. Levi's is also still having to compete with non-traditional players like Lululemon which is selling increasing quantities of comfortable outerwear. There are also risks to the brands from new entrants and niche players," Saunders warned. "One of the key balancing acts resulting from the switch to a public company will be the long-term health of the company versus the short-term performance often demanded by investors and Wall Street. Levi's has to take care not to chase fleeting fashion trends to generate quick upticks. It must focus on areas where it can build value and brand equity in a sustainable way."