Case History
Levi Strauss Japan K.K.: Selling Jeans in Japan

Levi Strauss, the original jeans-maker from San Francisco, has long had global presence. Jeans provide a great example ofa standardized product whose positioning differs across countries.
The case shows how the jeans-maker approached the Japanese market, where both foreign and domestic competition was strong and distribution was a key success factor. It focuses on how Levi '5 capitalized on its image as the original and maintained growth with a premium image.
In May 1993, Mr. A. John Chappell, president and representative director, Levi Strauss Japan K.K. (LSJ), was contemplating a conversation he had just had with the national sales manager and managing director, Mr. Masafumi Ohki. They had been discussing the most recent information regarding the size of the jeans market in Japan. It appeared that after two years of market shrinkage in 1990 and 1991, the market had contracted further in 1992. Although LSJ was still increasing its share of the market, Mr. Chappell was disturbed by this trend and wondered what new strategies, if any, LSJ should pursue.

Levi Strauss Associates
Levi Strauss invented jeans in San Francisco in the middle of the nineteenth century gold rush. At that time Levi Strauss made pants for the gold miners that would not rip apart when miners filled their pockets with gold. Since then, the company bearing the founder's name had been faithful to the guiding principle - “Quality Never Goes Out of Style" - and had built a strong reputation and broad customer base.
Levi Strauss Associates (Levi Strauss) designed, manufactured, and marketed apparel for men, women, and children, including jeans, slacks, jackets, and skirts. Most of its products were marketed under the Levi 's and Dockers trademarks and sold in the United States and throughout North and South America, Europe, Asia, and Australia. In 1992, Levi Strauss was the world's largest brand name apparel manufacturer. Sales of jeans-related products accounted for 73 percent of its revenues in 1991.

Levi Strauss International

Levi Strauss International (LSI), which marketed jeans and related apparel outside the United States, was organized along geographic lines consisting of the Europe, Asia Pacific, Canada, and Latin America divisions. In terms of sales and profits, Europe was the largest international division. Asia Pacific was the second largest, particularly due to the strong performance of its Japanese and Australian operations. Sales growth in LSI was faster than in the domestic division. The following table gives the breakdown of domestic and international sales for the recent years.

	1989		1990		1991	
Domestic	$2,395	66.0%	$2,560	60.3%	$2,997	61.1%
LSI	$1,233	34.0%	$1,686	39.7%	$1,906	38.9%
Total	$3,628		$4,247		$4,903	

In 1991, LSI was more profitable than the domestic operations on a per unit basis. LSI was generally organized by country. Each country's operations within the European division were generally responsible for sales, distribution, finance, and marketing activities. With few exceptions, Canada, Latin America, and the Asia Pacific divisions were staffed with their own merchandising. production, sales, and finance personnel.

The nature and strength of the jeans market varied from region to region and from country to country. Demand for jeans outside of the United States was affected by a variety of factors, each of varying importance in different countries, including general economic conditions such as unemployment, recession, inflation, and consumer spending rates. The non-US. jeans markets were more sensitive to fashion trends, as well as being more volatile than the U.S. market. In many countries, jeans were generally perceived as a fashion item rather than a basic functional product and were higher priced relative to the United States. Internationally, LSI maintained advertising programs similar to the domestic programs. modified as required by market conditions and applicable laws. Advertising expenditures for LSI were $108.4 million (5.7 percent of total sales) in 1991, a 21 percent increase from 1990.

Japanese Jeans Industry Environment and Trends: Jeans Market

Jeans were introduced into the Japanese market before World War II. Yet, the first market boom occurred right after the war, when U.S. forces brought a large supply of jeans into the country. The second growth spurt in the market for jeans was in the mid-1970s concurrent with the United States' bicentennial. During this time, "being American" was in vogue, greatly enhancing the demand for American culture and products. The third boom, in 1986, was fueled by the increasing popularity of the casual fashion look among Japanese youth. This fashion trend, along with more leisure time, greatly increased the market for jeans, resulting in a doubling of output from 26 million pairs in 1985. to more than 50 million pairs in 1990 (compound annual growth rate of 14 percent). However. the trend was toward slower growth, and the market actually shrunk in 1991. The growth in total production of jeans from 1987 to 1991 is given in Exhibit 1.

The financial results of major jeans manufacturers in 1992 indicated that the market continued to shrink following 1991. Yet. toward the end of 1992, some companies started to see the market revive. After the last couple of years of market contraction, the jeans industry seemed to be revitalized due to the development of new dying techniques (such as antique look jeans), as well as the development of jeans made of new fabrics such as light ounce denim and rayon. In addition, some of the smaller jeans manufacturers that targeted the women's market experienced double digit growth in sales.

EXHIBIT 1: Size of the Japanese Jeans Market

	Units of Total Jeans Production					
	Blue Jeans		Color Jeans		Total Jeans	
	Units	Growth	Units	Growth	Units	Growth
1987	36,924		15,186		52,110	
1988	43,274	17.2	12,904	(15.0)	56,178	7.8
1989	45,614	5.4	13,310	3.2	58,924	4.9
1990	45,401	(0.4)	13,238	(0.5)	58,639	(0.5)
1991	43,864	(3.4)	12,946	(2.2)	56,810	(3.1)

	Total Jeans Production in Yen (¥ millions)		
	Blue Jeans	Color Jeans	Total Jeans
1988	90,660	27,273	117,933
1989	95,562	28,124	123,686
1990	95,115	27,972	123,087
1991	86,992	24,774	111,766

Competitive Environment

During this period of rapid expansion, LSJ grew 35 percent annually, more than twice as fast as the market. As a result, LSJ currently enjoyed the highest share of any single brand at 16 percent of total market sales. Still, there was fierce competition for market share with the five other large brands in the jeans market: Lee, Wrangler, Edwin, Big John, and Bobson, due to the fact that all of the brands marketed similar product lines (emphasizing basic blue denim jeans, followed by other basic jeans, fashion jeans, and chino pants) targeted at essentially the same customer segment. Also, all the American brands marketed their products by emphasizing the image of Americana.

Sales figures for the six largest jeans manufacturers are given in Exhibit 2. These figures show that the market shares of the three large domestic Japanese brands, Edwin, Big John, and Bobson were declining. LSJ, however, moved up from fifth position in 1986 to second position following Edwin in 1990 with a market share of almost 13 percent, and in 1991 LSJ became the top-selling brand with approximately 15 percent of total jeans sales.

Following is a brief description of each of LSJ's major competitors.

Edwin

In addition to marketing its own brand of Jeans. Edwin. the largest domestic manufacturer. also marketed Lee jeans under a license agreement with VF Corporation. the U.S. company that owns the Lee brand. Edwin wanted to increase market share of its original brand; however, Lee was important for them to compete with Levi's. This posed a dilemma for Edwin, since the Lee brand was cannibalizing the Edwin brand. In 1992, for the first time, LSJ exceeded Edwin in the total sales amount. The figures for Edwin include revenues from Lee and Liberto brands. Edwin was also planning to sell a new Italian brand called Fiorucci beginning in the autumn of 1992.

Big John

Sales and net income were expected to increase after two consecutive years of decrease. This was due to the success of their new product line. the "antique collection." The company expected the blue jeans market to grow in again 1993. Since blue jeans was Big John's major product line. the company believed it was well positioned for growth in 1993. In May 1993, the company was to begin construction of a new headquarters, which would enable it to effectively concentrate the cutting. Distribution, trading, and kids clothes sections into one location.

Wrangler Japan

Wrangler, also a jeans brand of V F Corp., was produced and sold through a license agreement with Wrangler Japan, a joint venture between Mitsubishi and Toyo Boseki. Sales began to pick up in September 1992. especially in the women's jeans market which grew at double digit rates.

Bobson

Bobson's sales target for 1903 was ¥20.000 million. The company had been extremely successful in the women’s jeans market As a result, from October 1992 to January 1993, sales in that segment increased 40 percent over the same period of the previous year. The company expected 1993 to be a growth year. Up to this point, Levi Strauss' US competitor, VF Corporation, had chosen to operate in Japan solely under licensing arrangements, However there was speculation that the VF Corporation was planning to shift its marketing strategy from licensing to direct sales. This could drastically change the competitive market in the near future. Market experts predicted that the Japanese jeans market would eventually be dominated by the three major American brands: Levi’s, Lee, and Wrangler.

New Emerging Segments

In 1990. Wrangler Japan Inc. tried to reinforce its traditional image by marketing "revival jeans”, which featured natural dye extracted from the indigo plant. These indigo blue jeans, named Vintage Wrangler, where made of 100 percent denim and hand dyed. They were priced ¥30,000 (approx. $242.00). but were selling well. LSJ also introduced reproductions of its 5033BSXX and 701SXX styles, popular in the 1950s and 1960s, which werr priced at ¥48.000 ($384.00) in September 1991. Yet, it was reported that LSJ could not make these jeans fast enough to satisfy the demand. .

On the other hand well-preserved secondhand jeans were in high demand, some selling for more' than ¥500.000 (S4.000.00). About 30 to 40 stores had opened specializing in used jeans from the United States made in the 1940s, 1950s and 1960s. One store owner indicated that the most popular items were priced slightly below ¥100.000 ($800.00). However, the slowing growth in demand seemed to indicate that oversupply was becoming a problem and that the market was close to saturation. According to the National Sales Manager of LSJ, the secondhand trend was supported primarily by jeans enthusiasts and might not last long.

Sales of women's blue jeans registered a phenomenal 109 percent growth between 1985 and 1989, increasing from 8.5 million to 17.8 million pairs a year. With the forecast that the young men's market was stabilizing, all the companies were looking at the potential in the market for women's jeans, creating fierce competition in that category.

Changing Distribution Channel

Unlike in the United States, Europe, and other countries in Southeast Asia jeans sales in Japan were still predominantly through jeans specialty stores. In other countries, jeans specialty stores had already lost market share to large national chains (such as Sears and J.c. Penney's) and to discounters (such as Wal-mart and Kmart). The successful speciality stores in the United States were those that had been able to develop their own brands, such as The Gap and The Limited.

Although there had not been a similar shift in the Japanese market (from speciality stores to national chain), the shift was occurring within the jeans specialty shop channel. The structure of this channel seemed to be changing withl the emergence of a new type of jeans. Traditionally jeans shops were located in urban areas and sold only jeans (both factors placing a constraint on store size). Recently, new chain stores had been built in the suburbs that were usually five to seven times larger and might carry other products besides jeans. These jeans stores had proliferated at the expense of the smaller jeans stores. Their success was partly a result of their emphasis on sales promotions, ability to stock a full line of products, and the unique store designs. Two such chains, Marutomi and Chiyoda (the two largest shoe store chains) entered the jeans retail market four to five years ago and now boasted retail stores in excess of 200 each. This emergence of jeans specialty store chains had saved this category from losing market share following those in other countries.

In 1992, approximately 250 new stores were opened most of which were large-scale suburban stores of the type described above. Even though the peak was over, an additional 230 stores were likely to open in 1993. These consisted mainly of Chiyoda's 75 to 85 "Mac House" stores and Marutomi’s 100 "From

USA" stores. In some suburban areas, the increasing number of stores had started to stimulate competition for local market share. For example, in the city of Tsukuba, a growing suburban area outside of Tokyo, 10 jeans stores (including those under construction) ranging in size up to 4.500 square feet were clustered in 3.1 square miles. Many retailers, therefore, were attempting to differentiate themselves by increasing customer service and being more selective in what product lines they would carry. Yet, with the slowing down in the jeans market, compounded by the recession, the excessive increase in jeans retail space was worselling the inventory turnover leading to inventory surpluses.

Potential Impact on Pricing

Thus for. most of the distribution channels, including jeans specialty stores, department stores, and even national chain stores, had maintained the suggested retail price. National chain stores such as Daiei and Itoh Yokado had discount store as their affiliates.. Yet, these discount stores had different supply routes and sold different products. This enabled Daiei and Itoh Yokado to mantain the retail price suggested by jeans manufacturers.

A similar change in channel structure had occurred in the distribution of business suits, where sales by department stores and specialty stores in the cities had suffered due to the emergence of larger men's shops in the suburbs. In this case, price competition was increasing between the discount stores (the “category killer"), but not between the national chain stores as, had occurred in past. National chain stores had not entered the price war but were stuck in the middle between the discount stores (at the low end) and the speciality and department stores (at the high end).

If this held true in the jeans industry, national chain stores would not likely begin competing on price. Also, department stores and traditional jeans speciality stores (with few stores) were unlikely to discount. However the new jeans specialty stores with many outlets, going them strong purchasing power against manufacturers, might begin competing on price. These stores, which had expanded rapidly, were experiencing increasing competition and inventory surpluses, creating a ripe environment for price competition. The eventual outcome depended somewhat on how jeans manufacturers would react to discounting, should it occur, and on the sales policies of traditional jeans specialty stores.

Levi Strauss Japan K.K. – Overview

Levi Strauss entered Japan with the opening of a branch office of Levi Strauss (Far East) Limited (Hong Kong) in April 1971. Prior to this, its presence was limited to a minimal level of sales generated by importers. The Hiratsuka Distribution Center was opened in November 1973, and in June 1974, Levi Strauss began domestic production of jeans products.

In December 1975, Levi Strauss began selling through wholesale agencies, in addition to its direct sales to retailers. Levi Strauss also began importing products from the United States in 1978. In the same year, the reporting line of the Japanese office was changed from Hong Kong to LSI headquarters in San Francisco.

In 1982, Levi Strauss Japan K.K. (LSJ) was estabIished as an independent operating company. Another important milestone occurred in June 1989, when 4.1 million shares of LSI were listed on the Tokyo OTC market in an initial public offering. This sale brought in S80 million, while still leaving Levi Strauss with an 85 percent share of the Japanese company's equity.

LSJ's strategy had been to maintain consistency and a long-term view. With a strong emphasis on advertising, constant new product introduction in addition to traditional styles, systems development, good relationships with suppliers, contractors, wholesalers, and retailers, and personnel training. LSJ had successfully built its position in Japan.

This position was largely due to LSI's marketing strategy described below.

1. Target young male customers and advertise extensively through TV commercials and men's magazines. creating the image that Levi 's are cool American casual wear.
2. In order to have extensive accessibility. contract with various kinds of sales outlets from small specialty jeans shops, mainly located in urban areas, to national chain stores that have larger sales space, mainly located in suburbs.
3. Provide not only the traditional jeans imported from the United States,. but also new jeans that are in line with current fashion and sewn to fit Japanese physical features.

Products

Product lines sold by LSJ consisted of tops (shirts, jackets, and sweatshirts) men's and women's basic jeans, other basic jeans, and fashion jeans. There were approximately 18 kinds of men's basic jeans (excluding multiple colors) 10 kinds of women's basic jeans, 20 kinds of other basic jeans (including 5 for women) and several fashion jeans. Other jeans consisted of trendy jeans products and fashion jeans consist of cotton (nondenim) pants. The sales breakdown was as follows: 20 percent from tops, 20 percent from women's jeans, 40 percent from basic men's jeans, and 20 percent from the remainder.

Belts, accessories, shoes, socks, bags and kids' jeans were sold by another company under a license agreement. In addition, apart from traditional styles, product managers in LSJ designed new styles that were in line with the fashion at the time. New products were introduced twice a year in spring and in autumn. Occasionally, product innovations developed for the Japanese market were later introduced into other markets. This was the case for "stone-washed" denim jeans and the Dockers line, which were successfully introduced in the United States after being developed and introduced in Japan.

While LSJ did not own its own production facilities in Japan, all its domestically produced clothing was made by contracted factories that produced only Levi Strauss products. These contractors sewed jeans products from denim purchased by LSJ from various domestic textile manufacturers and from trading companies. The domestic production accounted for 50 percent of the total products sold in Japan, while 30 percent was imported from the United States and 20 percent from Southeast Asia, mainly from factories in the Philippines.

Until 1978 the company sold only domestic-and Asian-made jeans products in Japan. Then realizing the importance of having the original U.S.-made jeans, the company started to sell some U.S.-made products (specifically the 501 product line) in Japan. According to Mr. Ohki. it was crucial to send customers a message that LSJ was selling "real" American products. Yet, the domestically made jeans products actually fit Japanese bodies better, which partially contributed to the company's success in the early years.

Distribution

The company first established its distribution center in Hiratsuka. Kanagawa, in November 1973, two years after establishing operations in Japan. However, LSJ later reconstructed its distribution center in order to enhance customer service by improving the quality and quantity of warehouse and shipping facilities. In October 1990, it completed the first stage of reconstruction, including installation of the computer-controlled warehouse system named AS RS (Automated Storage and Retrieval System). Automation of picking and shipping areas, which were controlled along with the automated warehouse, was completed in May 1991. These renovations greatly improved the storage capacity and more than doubled the daily shipping capability. They also enabled the company to handle small quantity, frequent, short-term delivery orders. In addition, LSJ had installed automated ordering systems at some of the national chain stores, allowing for better inventory control and quicker response.

The company had two distribution channels - one was direct sales by sales personnel and the other was wholesale by sales agencies. Fifty-three percent of total sales came from direct sales made by 40 LSJ sales personnel located in the four sales offices. Using 1991 sales data to calculate the revenue generated by the direct sales force, the average salesperson generated ¥464.5 million (approximately S3.7 million) of revenue in that year. This demonstrated the extraordinary productivity of LSJ's sales force. The remaining 43 percent came from 13 domestic sales agencies.

Sales of LSJ products occurred through four kinds of sales outlets. LSJ's sales personnel and sales agencies both had contact with these key outlets consisting of: (1) major nationwide jeans shops such as Big American and Eiko; (2) major nationwide department stores, from the prestigious Mitsukoshi Department Store to Marui, a department store specifically targeted to the younger generation; (3) national chain stores such as Daiei, Itoh Yokado, and Seiyu; and (4) nationwide men's shops such as Iseya. Most of LSI's sales occur in jeans shops (70 percent), with the remaining sales fairly evenly split among department stores (12 percent), national chain stores (10 percent) and other stores (8 percent).

Levi's were sold at fewer sales outlets than some of their domestic competitors. For example, 5,000 stores carried the Levi's brand, while more than 10,000 stores sold the Edwin brand. Although LSJ received a higher percentage of its sales through traditional jeans shops (70 percent) than the market overall (60 percent), there was very little difference between LSJ distribution patterns and those of the other top brands.

LSJ's effort to be a Japanese company could be observed from its strategy of building good relationships with its sales outlets. LSJ provided various services to each outlet store, from giving advice on product displays and in-store arrangements to organizing seminars and handing out sales manuals. Japanese department stores relied heavily on the manufacturers to provide sales staff, forcing LSJ to place 160 employees in department stores as sales clerks. However, this necessity allowed LSJ and other Japanese manufacturing companies to gather information regarding customer preferences.

Pricing

Historically, LSJ was positioned as a price leader, charging 15 to 20 percent higher than competitors for similar jeans products. However competitors raised their prices to match Levi's (pricing of Levi '5 remained flat), allowing LSJ to greatly increase their market share. By 1993, compared to competitive brands such as Edwin, Lee, and Wrangler, LSJ had a similar price range for its jeans products. Even so, the average product price which LS1's customers paid (¥7,900 = approximately $63.20) was about 5 to 10 percent higher than the average price received by competitors. This was due to the fact that LSJ customers were willing to buy more expensive types of jeans.

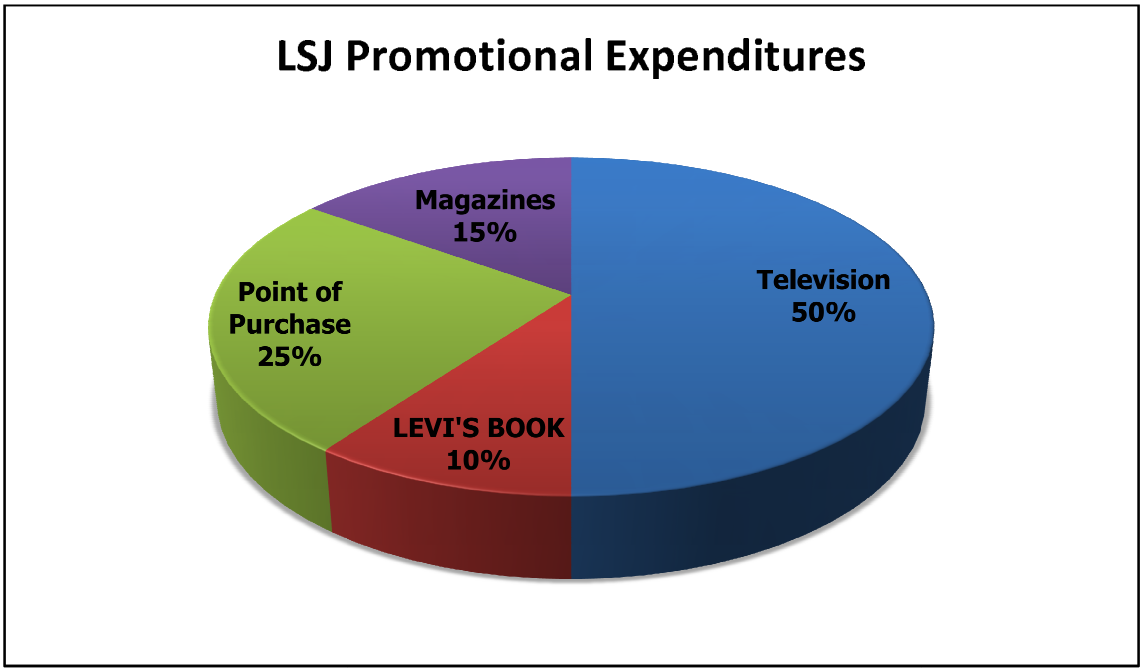
Wholesale price varied by distributor due to the rebate scheme. However, the average price charged to sales outlets was 55 percent of retail while sales agents paid about 50 percent of retail on average. LSJ charged a higher wholesale price to the department stores in order to offset the cost of LSJ employees who worked as sales personnel in those stores. However, there was no significant difference in retail price across the various distribution channels, since retail outlets maintained the suggested retail price.

Advertising and Promotion

Similar to the strategy employed by Levi Strauss in the United States, LSJ emphasized a pull strategy, spending heavily on advertising to increase demand. Since 1976, LSJ had been spending approximately 6 percent of total sales on advertising (TV and print) compared to an industry average of 4 percent. It used James Dean as an advertising character in order to establish the image of the young, active American. Its target customer had traditionally been young men, aged 16 to 29, who had grown up with, and maintained a good image of, American products.

When LSJ first launched its campaign in 1984 with the slogan *"Heroes Hear LEVIS,"* its main purpose was to increase the awareness of the Levi's brand. The ads showed movie scenes in which James Dean, John Wayne, Steve McQueen, and Marilyn Monroe wore jeans, while a famous movie announcer. Mr. Haruo Mizuno, read the slogan. In 1985, the slogan was changed to *"My Mind, LEVI'S"* and, in 1987, *"The Origil1al LEVI'S,"* both of which were intended to project traditional American values and a pioneering spirit with a more familiar nuance. The next slogan, *"Re-Origin."* was launched in 1989 to emphasize the revival of traditional jeans. Since the very beginning, the company had recognized the Japanese purchase mentality toward imported goods - Japanese were willing to choose imports and even pay more for these goods - and had been maximizing its marketing by appealing to this psychology.

LSJ focused on TV commercials and magazine advertisements, which accounted for 65 percent of the total promotional budget. Of this advertising expense, approximately 70 percent was used for TV commercials, and 30 percent for magazine advertisements. The company used mass media effectively based on differences in features. For TV commercials, LSJ used an advertising agency in order to maximize reach and communicate the company's image to a larger audience. In contrast, the company created its magazine advertisements mostly in house, since the goal of the magazine ads was to increase consumers' understanding of its products and to appeal strongly to certain target customer segments. In terms of cooperative advertising with sales outlets. LSJ was consistent with other Japanese manufacturing companies, which tended not to use this method as much as U.S. companies.



LSJ also published seasonal product catalogs named "LEVI'S BOOK" and placed them in outlet stores in order to introduce new products. Two million copies of this catalog were produced twice a year accounting for 10 percent of LSJ's promotional expenditures. The remaining 25 percent of promotional expense was used for direct communication with customers at the point of purchase, these consistent advertising and promotional activities, the company was trying to increase awareness of the Levi's brand, understanding of its products, and the willingness to buy.