HOW I DID IT

THE CEO OF LEVI STRAUSS ON LEADING AN ICONIC BRAND BACK TO GROWTH

by Chip Bergh

PHOTOGRAPHY BY JESSICA CHOU

I'm a brand guy. I spent 28 years at Procter & Gamble in brand management. I led the integration of P&G's $57 billion acquisition of Gillette, and then I ran that division—one of P&G's most profitable—for six years. It was a high-visibility assignment, so I started to get calls about CEO jobs. Most of them weren't very interesting. Then, in late 2010, I was at a hotel in Beijing for a quarterly meeting of our leadership team. A headhunter I knew called. She said, "I have something you may be interested in." I rolled my eyes—how many times had I heard that before? "OK, what is it?" I asked. "Levi Strauss," she replied. My one-word response: "Wow."

Few brands are as iconic as Levi's, and Levi Strauss is one of the oldest companies in America. It was a brand I grew up with and had an emotional attachment to. The story of its founding is well known: Launched as a dry-goods retailer during the California gold rush, the company got a breakthrough in the 1870s, when it patented the use of rivets to strengthen the seams in denim work pants, inventing blue jeans. But as I began doing research to prepare for my first meeting with its board chairman, I was surprised by what I found. I'd guessed that Levi Strauss had revenue of about $10 billion. But in fact its sales had peaked at $7 billion in 1997 and then fallen to $4.1 billion in five years. From 2001 to 2010 they never exceeded $4.5 billion. The more I studied the company's recent history, the more it looked like *The Gang That Couldn't Shoot Straight.* I didn't remember a single Levi's advertisement. Its financial performance had been erratic for a decade.

Although I worked in consumer packaged goods, I was intrigued by the apparel industry as a result of my time on the board of VF (which owns the Lee and Wrangler jeans brands). After a long dinner with the chairman of Levi Strauss, I could see this was a great opportunity. I was 54 years old and ready for a change. When I decided to accept the CEO role, I saw it as a noble cause. I wanted to leave a legacy and make the company great again.

"LIVE IN LEVI'S"

When I arrived, in September 2011, I basically went on a listening tour, spending an hour with each of the company's top 60 executives. I had e-mailed them my questions beforehand: What are three things we should not change? What are three things we absolutely must change? What's one thing you're hoping I'll do? What's one thing you're afraid I may do? After about 15 or 20 of those meetings, I had a pretty clear sense of the problems. When I asked people what they were working on, and how that work linked to Levi's strategy, I got a lot of blank stares. It was obvious that they were rowing in different directions.

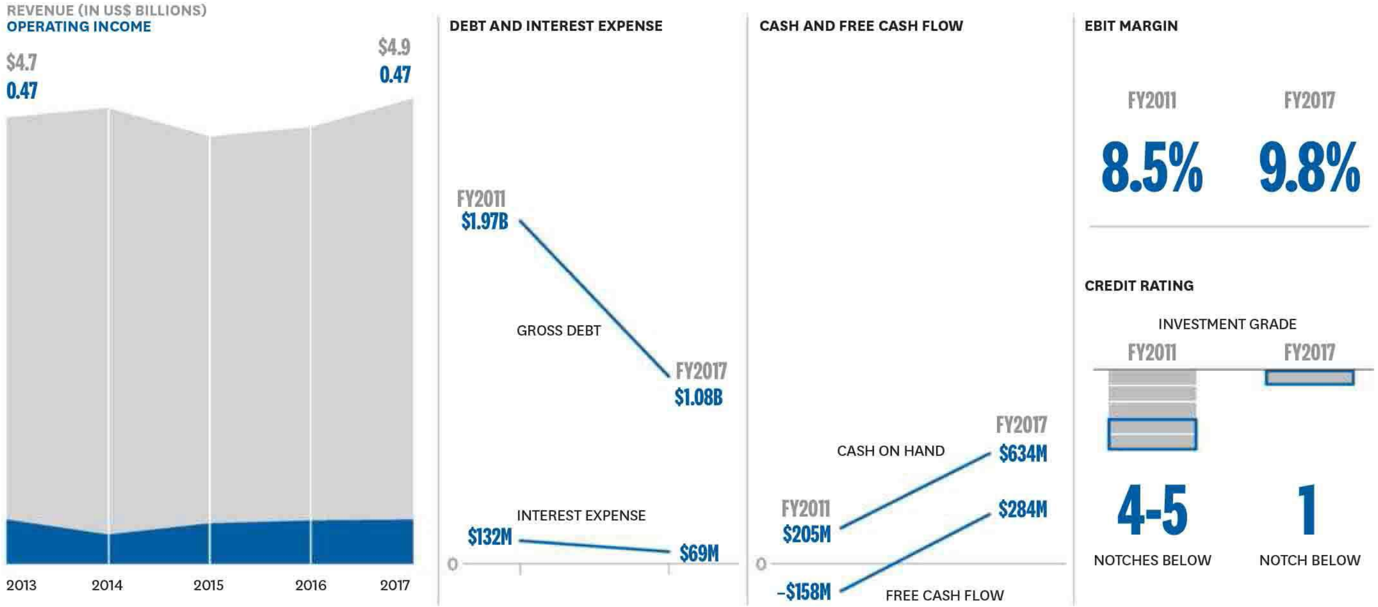
The lack of a clear strategy wasn't surprising. But two other things really were. At an employee town hall meeting I asked, "How many of you think this company is performing well?" Three-quarters of the attendees raised a hand. I was shocked. A lack of urgency, of financial discipline, and of data discipline permeated the culture. I took my listeners through why I believed that the company was underperforming and why we had an opportunity—and an obligation—to do better. Succeeding would require significant cultural change.

The second surprise was related to the first. Every new CEO expects to make a few changes in the top leadership team, especially when coming in from the outside. But I was astonished by how many of my team members I needed to replace. When I arrived, I had 11 direct reports. Within 18 months nine of them were gone, and only one of the other two is still here today. We now have a world-class executive team that I would put up against that of any other company in the world.

Even as I worked to understand what was going on inside Levi Strauss, I studied the market and our customers. During my second month in the job, I visited Bangalore and asked our people there to set up an in-home visit. An in-home typically starts with broad questions about lifestyle and interests and then narrows down to how the customer uses the product and views the category. P&G relies heavily on in-homes, so I had been doing them for years. I find them incredibly useful, even though the insights gained are qualitative.

LEVI STRAUSS FACTS & FINANCIALS

FOUNDED 1853
HEADQUARTERS SAN FRANCISCO
NO. OF EMPLOYEES 13,200



NOTE THE COMPANY'S REVENUE AND OPERATING INCOME HAVE BEEN INFLUENCED BY CURRENCY FLUCTUATIONS.
SOURCE LEVI STRAUSS

The customer I met with was a 29-year-old professional woman from an upper-middle-class family. She lived with her parents in an air-conditioned home with marble floors; it differed greatly from many of the homes I'd visited in India while at P&G. The woman spoke perfect English and had attended Cambridge. She had about 10 pairs of jeans—Hudson, Guess, Calvin Klein, and some others. We went into her room, and she pulled them out of her wardrobe.

We talked about each pair—what she liked, what she didn't, and when she wore it. She had two pairs of Levi's, and we talked about those last. She pointed to one pair and said, "These are my go-to jeans—the ones I'll wear day-to-day, like if I'm going to meet a girlfriend." Then she focused on the second pair. "These are the jeans I wore at university," she said. "They don't even fit me anymore, but I can't bear to part with them because of all the memories." Then she said something arresting: "You wear other jeans, but you live in Levi's." I still get goosebumps when I recall that moment. To me, her words captured the essence of our brand. "Live in Levi's" became our advertising tagline. That experience is an illustration of how much value can come from listening to consumers.

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1873
FIRST BLUE JEANS
("waist overalls") are manufactured after Levi Strauss and Jacob Davis are awarded a patent to create work pants reinforced with metal rivets


FREEDOM-ALLS

1918
FREEDOM-ALLS
the company's first garment for women

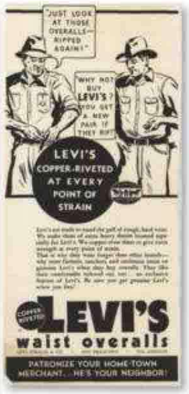
1934
FIRST JEANS FOR WOMEN
introduced

1928
"LEVI'S"
registered as a trademark

c. 1905
KHAKI PANTS
and coats introduced

1853
COMPANY FOUNDED

1850 1875 1900 1925

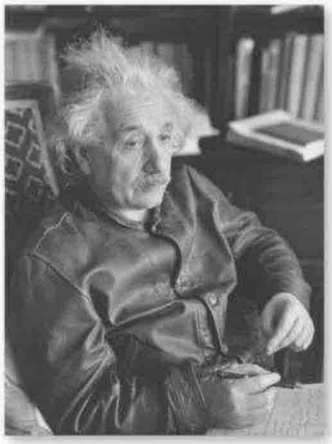


1902
LEVI STRAUSS DIES
Four nephews inherit the company


LEVI STRAUSS

1906
SAN FRANCISCO EARTHQUAKE
and fire destroy company headquarters

1935
ALBERT EINSTEIN
buys his famous Levi Strauss leather jacket (sold at Christie's for £110,500 in 2016)



1959
EXPORTS TO EUROPE
begin

1967
"JEANS"
replaces "overalls" in advertising

1986
DOCKERS
brand launched

2003
COMPANY WINS A SCORE OF 100%
from the Human Rights Campaign Foundation

2007
Becomes a founding member and signatory of the
CEO WATER MANDATE

2009
Launches
CARE TAG FOR OUR PLANET INITIATIVE

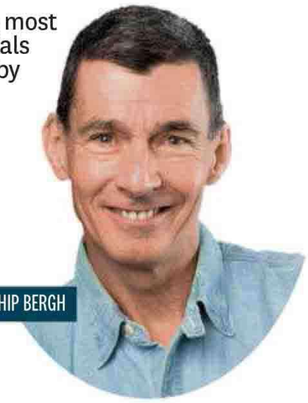
2010
Joins the
BETTER COTTON INITIATIVE
Launches its
WATER<LESS COLLECTION

1950 1975 2000 2018

1952
LEVI STRAUSS FOUNDATION
formed

1965
LEVI STRAUSS INTERNATIONAL
established

1993
"WOMEN BREAKING THE MOLD"
ad named one of the most important commercials of the past 50 years by *Advertising Age*


CHIP BERGH

2011
CHIP BERGH
becomes president and CEO

2013
Introduces its
WASTE<LESS COLLECTION
Buys naming rights to the
SAN FRANCISCO 49ERS NEW STADIUM

IMAGES PROVIDED BY LEVI STRAUSS/UNIVERSITY OF NEW HAMPSHIRE/GADO/GETTY IMAGES/JESSICA CHOU

A FOUR-PART STRATEGY

But a new tagline isn't a new strategy, which is what the company really needed. Devising one was my top priority during those early months. I tortured the finance department, asking it to slice and restack the data to help me understand how we could create a plan to grow revenue and profits. About six months after I arrived, we rolled out the plan. It had four key pieces, each of them memorable and easy to understand:

Build our profitable core. This piece was based on the recognition that 80% of our cash flow and profits come from men's bottoms—jeans and Dockers—and from sales in our top five countries and to our top 10 wholesale customers (primarily department stores, including Kohl's, JCPenney, Sears, and Macy's). This part of our business has high market share but relatively low growth. It's vitally important to our finances, however; if the core isn't healthy, our business can't succeed.

Expand for more. At the time, we had a very low market share in women's clothing, and we weren't selling enough tops. The rule of thumb in apparel is that most people buy three or four tops for every bottom, but our numbers were just the opposite. We also had very low sales in developing markets such as Brazil, Russia, India, and China. That represented an opportunity.

Become a leading omnichannel retailer. Even though most of our products were sold in department stores, Levi's had 2,700 of its own stores around the world, plus an e-commerce website. When I walked through department stores, I saw that our brand wasn't consistently showcased. But in our own retail stores, of course, we controlled the experience, and we got higher margins on sales. So we needed to grow sales in our brick-and-mortar stores and on our website as well—because over time more apparel sales would be online.

Achieve operational excellence. We needed to cut costs, drive cash flow, and become more data driven and financially disciplined to free up money to invest in technology and innovation. We also needed to reduce the nearly $2 billion in debt remaining from a leveraged buyout in the late 1990s. When I arrived, we were spending more on interest payments than on advertising, which makes it difficult to grow a brand.

THE INNOVATION LAB

One of the first places we reinvested the savings from our new strategy was in our Eureka Innovation Lab. The lab was in Corlu, Turkey, colocated with one of our factories. To me, this was crazy. Almost all our designers were in San Francisco, where the company is headquartered. To get to Corlu from San Francisco took more than 12 hours, so people would go for a week or two, once or twice a year. We spent a fortune shipping samples back and forth, because apparel innovation is iterative and tactile. How could an apparel company put such a low priority on innovation?

We decided to open a new facility four blocks from our headquarters. It's essentially a pilot plant, with a laundry operation, cut and sew capabilities, hundreds of rolls of denim, and dozens of creative people. We spent a few million dollars on it, and our CFO was worried that we'd never see a return. I signed off on it anyway, because I figured that if we created the right environment, something huge would come out of it.

Since the lab opened, in 2013, its biggest success has been our revamped women's denim line, which we launched in 2015. Our women's business had been in decline, owing partly to the rise of athleisure wear. It drives me crazy that women wear yoga pants to nice restaurants—denim would look so much better. But they're choosing athleisure because it's more comfortable. I told our designers that we had to fix this problem. They began creating denim with new technologies, such as four-way stretch—fabric that recovers quickly and doesn't get baggy at the knees (a common problem with stretch jeans). Consumers loved the stretch, the comfort, the soft fabric, and the way they looked in the new designs. Since that relaunch our women's business has experienced 11 quarters of consistent growth, and sales have increased from less than $800 million to more than $1 billion annually.

The other big investment came in 2013, when we bought the naming rights to Levi's Stadium, the new home of the San Francisco 49ers, from the NFL. This was a 20-year, $220 million deal with an option to extend it to 25 years. That's a lot of money, but I had experience in this area. In my previous job I'd overseen Gillette's relationship with the New England Patriots, who have played at Gillette Stadium since

WHEN I ARRIVED, OUR INNOVATION LAB WAS IN TURKEY—MORE THAN 12 HOURS OF TRAVEL AWAY. TO ME, THIS WAS CRAZY.

2002. The people who attend concerts and NFL games are Levi's core customers, so this would put our brand back at the center of the cultural conversation. Today the 49ers mascot wears Levi's jeans, our brand is all over the stadium, and we can entertain important stakeholders in great seats. When Super Bowl 50 was played in Levi's Stadium in 2016, some experts calculated that the brand exposure from that week alone was worth a significant portion of what we paid for the naming rights.

"DON'T WASH JEANS"

In marketing our products we tried to find the right balance between highlighting our heritage and being contemporary. If a seasoned brand dwells too much on its history, it can feel old and dusty. But if you disregard your history, you're walking away from one of your strongest assets. I spent time looking at other successful brands, such as Converse and Ray-Ban, that leverage their heritage. One example of the way we meld old and new is our iconic trucker jacket. This year we celebrated the trucker's 50th birthday, but we also partnered with Google to create a wearable technology version that lets you control your iPhone from your jacket sleeve. Sales of all Levi's trucker jackets jumped nearly 40% last year, which shows that today's consumers are looking for authenticity and want a brand that stands for something—as ours does.

Not everything I've done in this job has gone as planned. In 2014 I became a viral sensation for an offhand comment I made at a conference on sustainability. We've worked hard to make our products more environmentally friendly, including reducing the amount of water used in creating our jeans. At the conference I mentioned that a life-cycle analysis shows that most of the water jeans consume is used not in our manufacturing them but in owners' washing them. I explained that people wash their jeans far more than is necessary—in fact, I was wearing a pair of Levi's that were two years old, and I had never put them in a washing machine. (I wash them every few months by hand and line dry them, which is what we recommend.) The remark was meant to be a wake-up call—you don't need to wash jeans every time you wear them!—but people took it to mean that I never wash my jeans. Today, if you type "CEO Levi's" into Google, "don't wash jeans" comes up. I expect that my supposed anti-laundry stance will be mentioned in my obituary.

MUCH ROOM FOR GROWTH

I've learned a lot during my seven years here. The learning curve has been steeper than I expected. I thought my brand-building experience would translate directly to this job—and it has in some ways—but the cycle times and the pace of innovation are much different in apparel. At Gillette we launched the Fusion razor in 2006, and the first upgrade was in 2010. At Levi Strauss our product lines change every six months, so it's crucial to get the trends right. The other big learning for me has been running a retail operation, which I hadn't done at Procter & Gamble. Today one-third of our business comes from selling direct to consumers via our website and company-owned retail locations. Those businesses have grown 51% in the past five years, and we're well on the way toward our goal of being a world-class omnichannel retailer.

I've also learned that it's very hard to change a culture. When a company is in decline for 10 years, something perverse happens to its culture. I've spent a lot of time with my executive team and the company's top leaders around the world to shape the behaviors and expectations that define a high-performance culture. It all starts with having the right people and unleashing them to tackle some of the biggest challenges. We have become more focused on customers and consumers in general, on winning, on teamwork, and on the idea that performance really matters—but even now that we're growing again, the culture has been slow to change.

The company is making good progress. We've delivered almost five straight years of top- and bottom-line growth and have more than doubled the value of the enterprise. We've significantly strengthened our balance sheet, paying down about $1 billion in debt. Our balance sheet is now an asset (not a liability), with $1.2 billion of liquidity. And we've dramatically increased our investment in advertising, which is working. Fiscal 2017 was the strongest year the company has had in more than a decade, generating an 8% revenue increase, while the Levi's brand grew 9%. And although we've increased revenue and profits, we still have much room for growth. Our global market share in women's clothing is in the high single digits. Even if athleisure continues to be strong and the women's denim market stays flat, we can grow by stealing share. Our tops grew 35% last year, but our market share for tops is still below 1%. Everywhere I look I see upside. We have nearly 3,000 stores now, and unlike a lot of retailers, we're continuing to open new ones.

I believe we can grow beyond our historical peak of $7 billion and someday be a $10 billion brand, as I once assumed the company was. Levi's lost a generation of consumers in the early 2000s, but today our customers are younger than ever—and we're gaining momentum as we bring them back.

HBR Reprint R1804A