Levi's

ASTRID ANSON

22490836

BUSINESS ANALYTICS: MERCHANDISING

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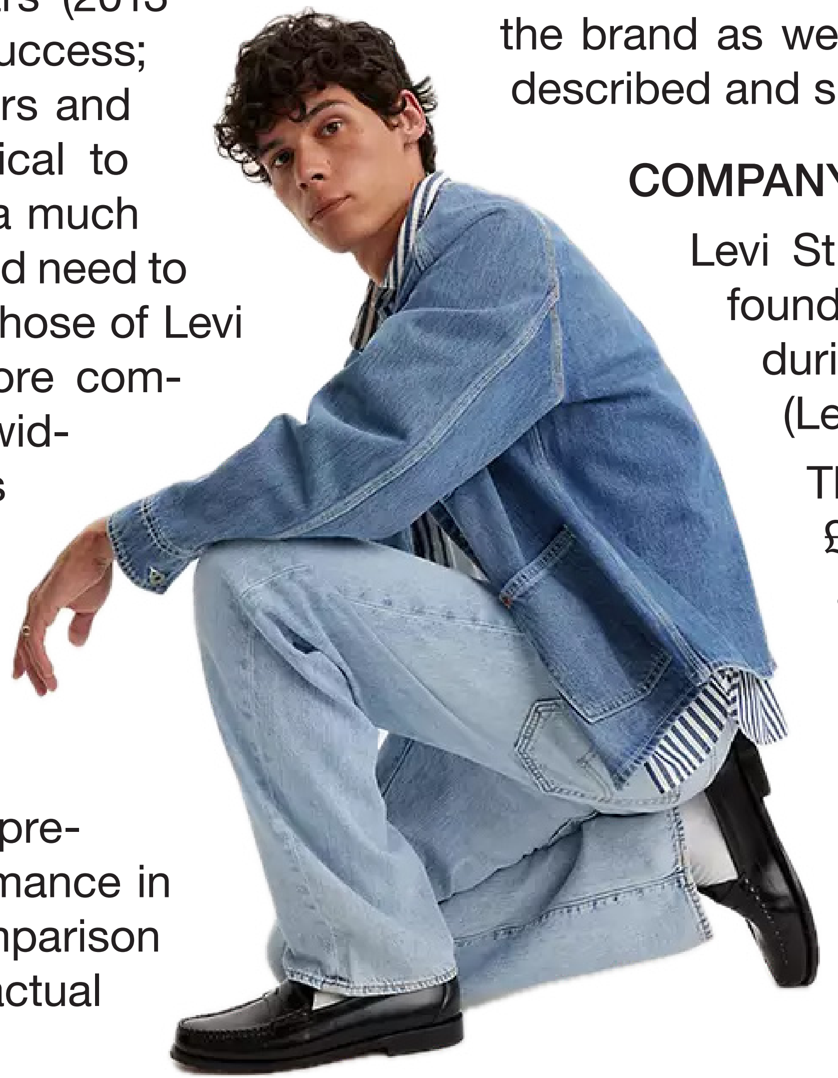
CONTENTS

INTRODUCTION

INTRODUCTION

This report will focus on Levi Strauss & Co. in the United Kingdom. The brand will be analysed over a period of ten years (2013 to 2022) via six measures of success; three key performance indicators and three financial ratios. It is critical to note that this report is limited; a much larger number of measures would need to be analysed and compared to those of Levi Strauss's competitors for a more complete view of the brand and the wider marketplace. This report aims to provide the most comprehensive view within the constraints of these limitations.

The brand's performance from 2013 to 2017 will be analysed and from this data, a prediction of Levi Strauss's performance in 2018 will be estimated. A comparison of these estimates versus the actual figures will follow. The same analysis will be performed for the years 2018 to 2022 and a similar prediction as before will be estimated. Finally, an overview of external and internal influences on the brand as well as current strategy will be described and suggestions will be made.



COMPANY OVERVIEW

Levi Strauss & Co., or Levi's, was founded in California in 1853, during the California Gold Rush (Levi Strauss & Co., 2024).

The company brought in over £5 billion in revenue in 2022 across all their channels, including the brand's 1,069 retail locations worldwide, £77.8 million of which came from their British sales (Fame, 2024; Levi Strauss & Co., 2024).

Image [Adapted from] Levi's (2024)

KPIs

For this report, sales, net profit, and year-on-year (YOY) growth have been chosen as the key performance indicators (KPIs) to analyse.

SALES

Sales, also called revenue or turnover, is the total amount a business brings in through sales of products or services (Hayes, 2023). Although sales alone is not enough to determine the performance of a company, it is a critical factor in doing so and can give an idea of a business's overall growth, which in the fashion industry is expected to be around 2% to 4% year-on-year (McKinsey & Company, 2024).

NET PROFIT

Net profit, also known as a company's 'bottom line', is the money a company has generated after the cost of goods sold, taxes, and other expenses are subtracted from the business's total sales or revenue. This is one of the most important indicators for business performance and is analysed both within the company and by other businesses to assess a company's success (Clark, 2020).

YEAR-ON-YEAR GROWTH

YOY growth is the percentage change of a figure between any two years, and can inform whether a business is doing well or poorly and assess its performance against competitors. Without analysing YOY growth, sales and net profit mean little on their own.

RATIOS

The ratios which will be analysed in this report are the current ratio, working capital, and gearing.

CURRENT RATIO

The current ratio is calculated by dividing a businesses current assets by their current liabilities and is used to measure whether a company can pay its short-term liabilities with the cash available (Gallo, 2015). In the fashion industry business's current ratio is ideally in the 1:1.5 to 1:2.5 range. If a company's current ratio is too low (accepted to be below 1:1), the business will struggle to pay its short-term liabilities. If the ratio is too high, however, it may be a sign that a business is not taking enough risks or buying enough stock.

WORKING CAPITAL

Working capital is calculated by subtracting a business's current liabilities from its current assets and specifies the money a business has available to run its day-to-day operations, an indication of business health (British Business Bank, 2024). A business cannot run without working capital.

GEARING

Gearing is the relationship between a business's debt to equity and essentially assesses a company's financial leverage (Young, 2020). Gearing can be used to indicate the stability of a business; a higher ratio suggests that a business relies more heavily on external funding, though a healthy gearing ratio differs greatly between industries (British Business Bank, 2024).

Image [Adapted from] Levi's (2024)

INITIAL 5-YEAR ANALYSIS

FIRST SET OF YEARS	2013	2014	2015	2016	2017
SALES	£ 37,733,000.00	£ 43,179,000.00	£ 46,880,000.00	£ 49,059,000.00	£ 58,393,000.00
NET PROFIT	£ 2,780,000.00	£ 3,162,000.00	£ 4,024,000.00	-£ 12,068,000.00	£ 4,172,000.00
YOY GROWTH	4%	13%	8%	4%	16%
CURRENT RATIO	4.32	4.85	4.32	1.96	1.2
WORKING CAPITAL	£ 15,562,000.00	£ 18,929,000.00	£ 20,979,000.00	£ 9,081,000.00	£ 2,816,000.00
GEARING	11.68	7.86	9.9	0.57	NO DATA

Figure 1: Initial 5-year analysis (Source: [adapted from] Fame, 2024)

ANALYSIS

In the five years from 2013 to 2017, Levi Strauss & Co.'s sales jumped from £37.7M to £58.4M, a 55% increase overall (Fame, 2024). As shown in Figure 1, the company maintained a healthy rate of YOY growth throughout this time period, exceeding the current industry average (McKinsey & Company, 2024). The significant YOY jumps in 2014 and 2017, at least in the United Kingdom, cannot be easily explained by information readily available to the author, though revenue seems to have grown at a more steady pace worldwide (Levi Strauss & Co., 2015).

Net profit throughout these years was also fairly steady, with the significant exception of 2016. Once again, profit was steady worldwide (Smith, 2024), though may have been disrupted in the UK by the June 2016 Brexit referendum which slashed consumer confidence levels, argued to be the worst downturn for 26 years prior (GFK, 2016).

SALES, 2013 TO 2017

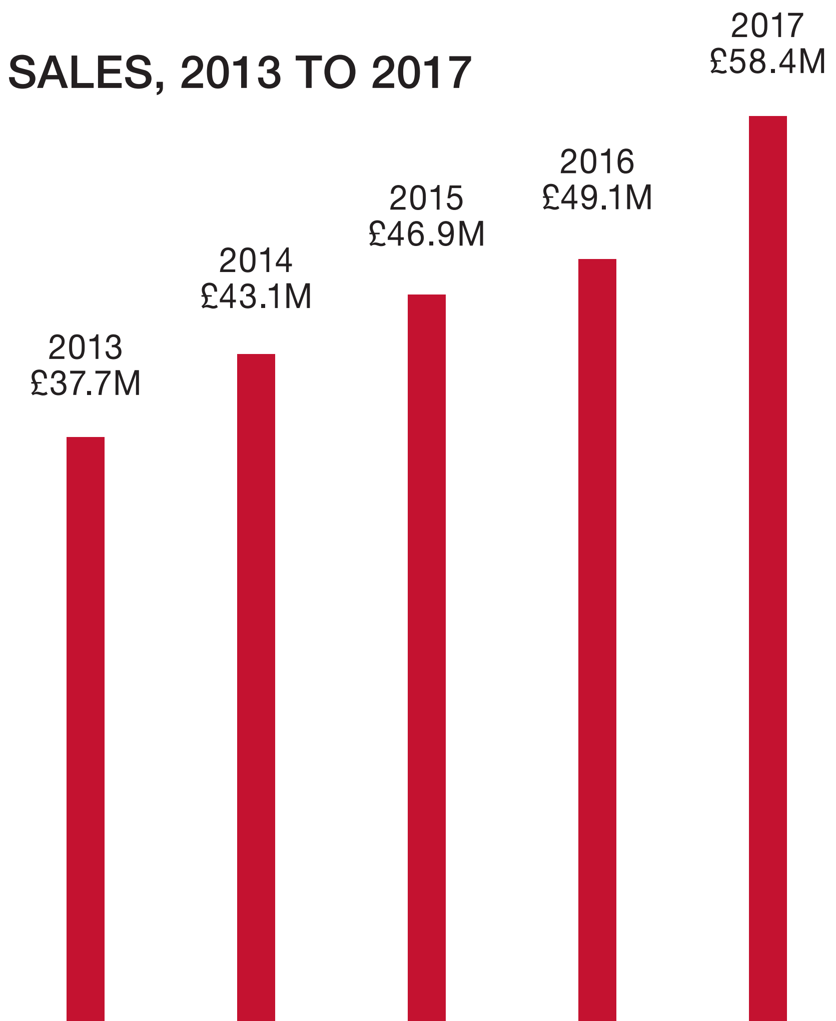


Figure 2: Levi Strauss & Co. sales, 2013 to 2017 (Source: [adapted from] Fame, 2024)

During the first three years, Levi Strauss's current ratio was in the 1:4.3 to 1:4.9 range (Fame, 2024). Although some may argue that too high of a current ratio is better than one that is too low, a current ratio higher than 1:2 indicates that the company is not taking enough risks and stockpiling cash, which will quickly displease shareholders (Gallo, 2015). However, the current ratios in 2016 and 2017 were 1:1.96 and 1:1.2, respectively, which are solidly within the recommended range for a fashion retailer. Still, over the five years, the current ratio had a strong downward trend, which may be cause for worry going forward.

The company's working capital follows a similar downward trend, which, allowed to continue, could land the business in serious financial trouble in the years directly following.

Gearing at Levi Strauss varied during the first five years, and the data for 2017 is unavailable. This does not allow for a reliable trend analysis, though it can be gathered that the company relied mostly on revenue rather than on outside funding during this time (British Business Bank, 2024).

SUMMARY

Overall, the data gathered and analysed paints an inconclusive but not entirely optimistic picture of the company during 2013 to 2017. While sales trends were positive and YOY growth was strong, the other KPIs and ratio analyses suggested that the company may have cause for concern.

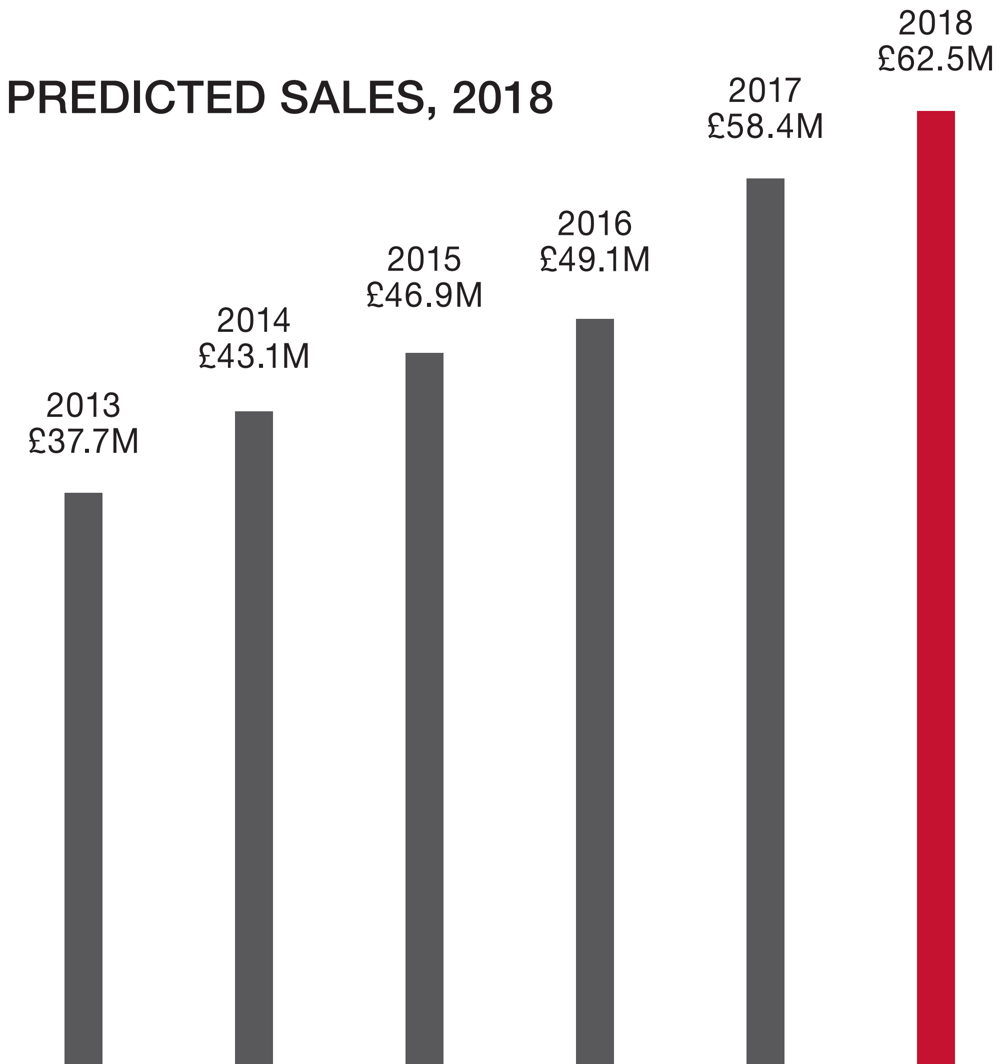
Image from Levi's (2024)

INITIAL PREDICTION

FIRST SET OF YEARS	2013	2014	2015	2016	2017	PREDICTION
SALES	£ 37,733,000.00	£ 43,179,000.00	£ 46,880,000.00	£ 49,059,000.00	£ 58,393,000.00	£ 62,525,000.00
NET PROFIT	£ 2,780,000.00	£ 3,162,000.00	£ 4,024,000.00	-£ 12,068,000.00	£ 4,172,000.00	£ 4,450,400.00
YOY GROWTH	4%	13%	8%	4%	16%	9%
CURRENT RATIO	4.32	4.85	4.32	1.96	1.2	0.57
WORKING CAPITAL	£ 15,562,000.00	£ 18,929,000.00	£ 20,979,000.00	£ 9,081,000.00	£ 2,816,000.00	£ 2,871,400.00
GEARING	11.68	7.86	9.9	0.57	NO DATA	7.55

Figure 3: Initial 5-year prediction (Source: [adapted from] Fame, 2024)

PREDICTED SALES, 2018



ANALYSIS

2018 sales were predicted by finding the average increase in sales year-on-year and adding that number to 2017 sales, which was found to be an increase in growth of 9% YOY. Net profit was calculated similarly. These numbers align well with those recorded for the previous five years and, alone, look positive for the business.

The current ratio and gearing were both calculated using a predictive line of best fit, as shown in Figures 5 and 6. The strong downward trend clearly seen in both graphs points to serious financial trouble, even while sales are strong.

Figure 4: Levi Strauss & Co. predicted sales, 2018 (Source: [adapted from] Fame, 2024)

By 2019, Levi Strauss's current ratio would be well below 1:1 and the business would not be able to pay its short-term liabilities (Gallo, 2015). Similarly, by 2020, the business would run out of working capital and be forced to take out large loans or cease trading, at least in the United Kingdom.

Gearing was calculated to be 7.55 using a simple average due to the varied and inconclusive nature of the data set. This prediction would mean that the brand continued to rely mostly on revenue to run, which in general is good for business but does not reveal much about the business's financial outlook.

SUMMARY

Overall, these calculations do not predict a positive future for the brand. Although sales are predicted to continue to grow, the financial situation under the surface indicates immediate trouble for the business.

Image [Adapted from] Levi's (2024)

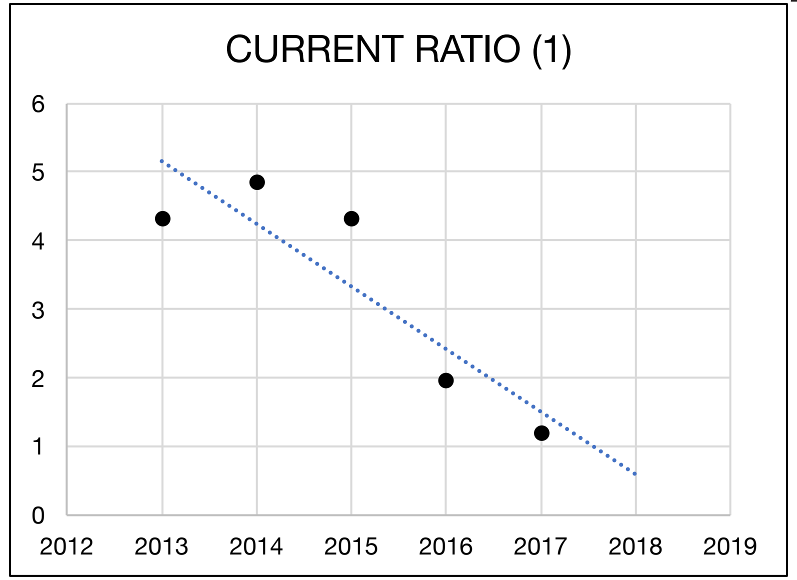


Figure 5: Current ratio, initial prediction (Source: [adapted from] Fame, 2024)

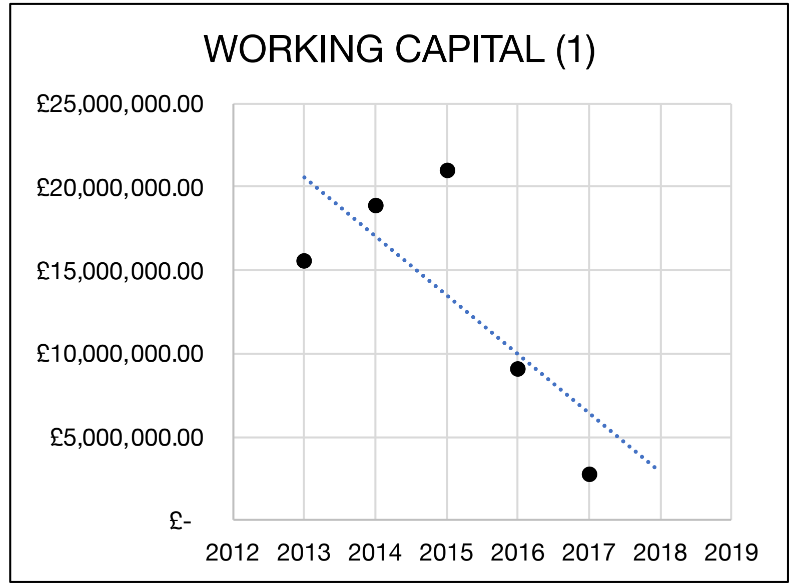


Figure 6: Working capital, initial prediction (Source: [adapted from] Fame, 2024)

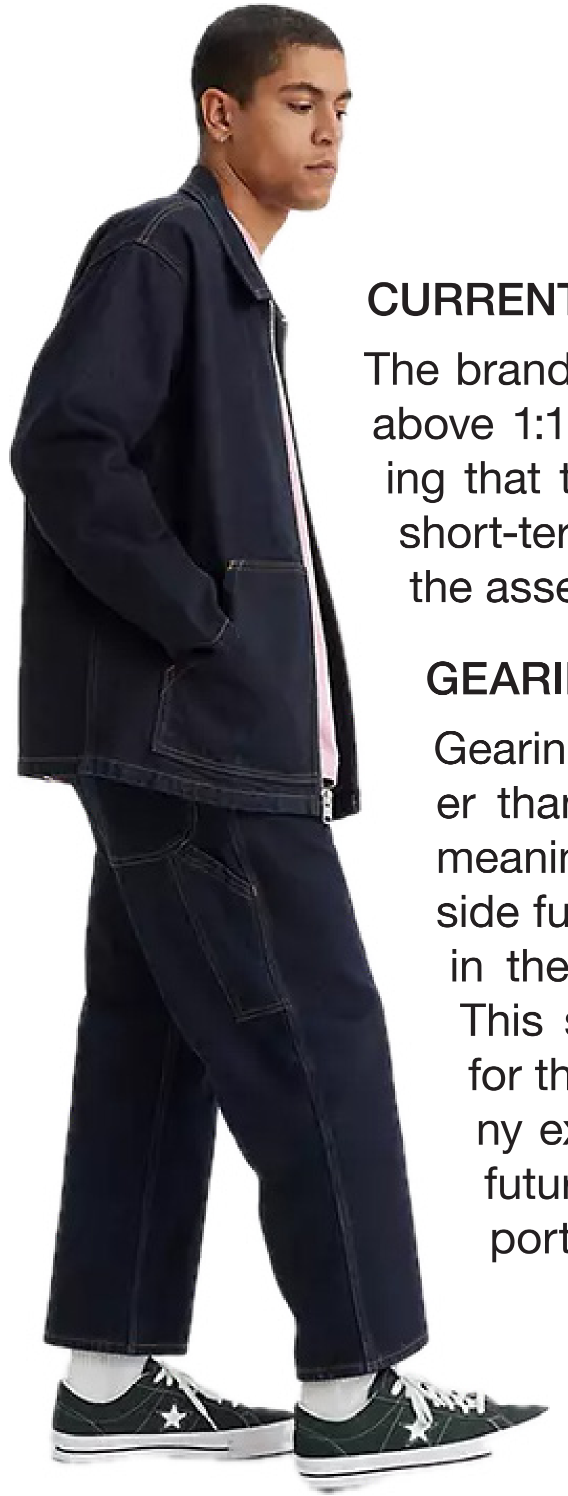
ACCURACY

SALES & PROFIT

The sales prediction was fairly accurate, at £62.5M versus the actual £66.4M, a 6% total difference (Anson, 2024; Fame, 2024). This difference in sales was reflected in the YOY growth fivefold, as actual growth (12%) was 33% higher than predicted growth (9%). The prediction for net profit was less accurate, at £4.5M to £6.2M, a 39% difference (Anson, 2024; Fame, 2024).

WORKING CAPITAL

In 2018, working capital increased 11% more than was predicted, at £3.2M, keeping the company safely running and out of bankruptcy danger.



CURRENT RATIO

The brand's current ratio in 2018 was back above 1:1, but just barely, at 1:1.15, meaning that the company was able to pay its short-term liabilities during that year with the assets available to them.

GEARING

Gearing increased to 22.8, 202% greater than the 7.55 which was predicted, meaning that the business utilised outside funding more heavily than they had in the recent few years (Fame, 2024). This strategic move is likely a reason for the upward turnaround the company experienced, rather than the bleak future predicted previously in this report.

Image [Adapted from] Levi's (2024)

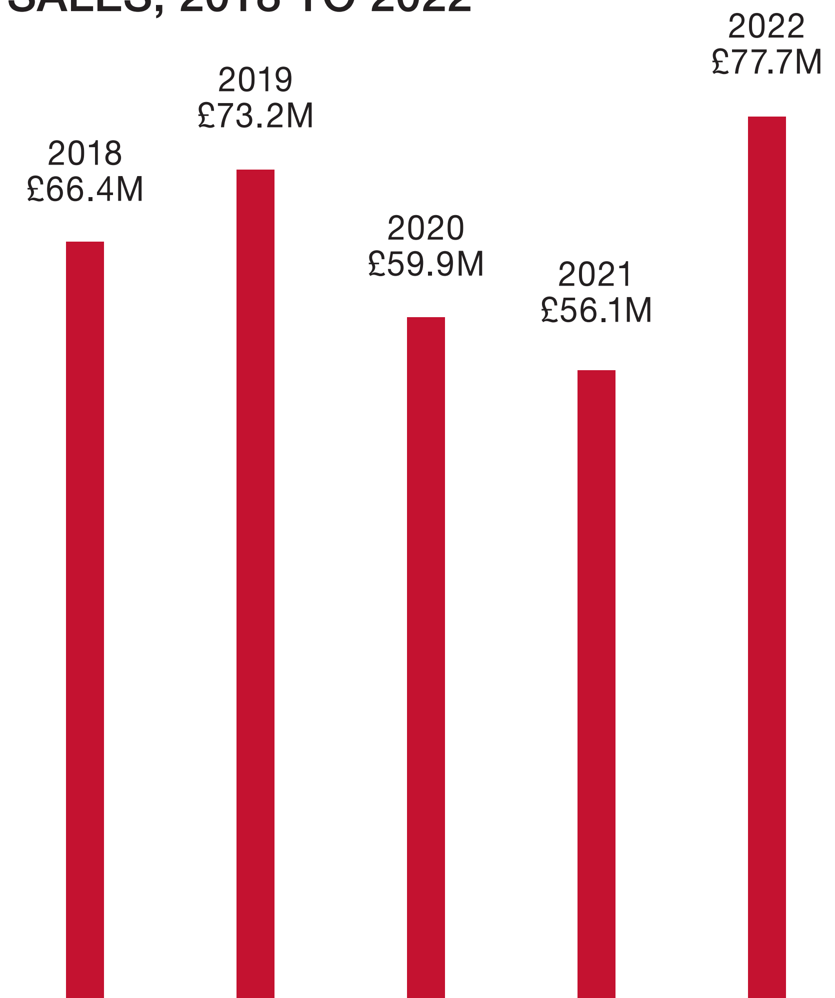
Image: Levi's (2024)

SECOND 5-YEAR ANALYSIS

SECOND SET OF YEARS	2018	2019	2020	2021	2022
SALES	£ 66,416,000.00	£ 73,159,000.00	£ 59,947,000.00	£ 56,134,000.00	£ 77,735,000.00
NET PROFIT	£ 6,207,000.00	-£ 11,010,000.00	£ 3,780,000.00	£ 2,899,000.00	-£ 2,856,000.00
YOY GROWTH	12%	9%	-22%	-7%	28%
CURRENT RATIO	1.15	0.73	1.94	1.6	1.22
WORKING CAPITAL	£ 3,173,000.00	-£ 7,372,000.00	£ 19,300,000.00	£ 23,458,000.00	£ 8,793,000.00
GEARING	22.81	142.87	51.24	132.99	189.61

Figure 7: Second 5-year analysis (Source: [adapted from] Fame, 2024)

SALES, 2018 TO 2022



ANALYSIS

In the years following 2017, sales at Levi Strauss continued to grow from £66.4M in 2018 to £77.7M in 2022 (Fame, 2024). This represents an overall growth of 17% and an average yearly growth of 4%, although this is a deceivingly oversimplified figure. Industry average is around 2% to 4% according to McKinsey & Company (2024), though while healthy, the growth rate of the second five years is significantly lower than that of the first five years (55% overall growth). As discussed earlier, however, sales and YOY growth alone are not enough to accurately assess business health.

Figure 8: Levi Strauss & Co. sales, 2018 to 2022 (Source: [adapted from] Fame, 2024)

As mentioned, the 4% average yearly growth rate figure is misleading. Actual YOY growth during this time period ranged from -22% (in 2020, unsurprisingly) to 28% (in 2022). Negative growth is obviously not ideal for a business, though extreme short-term growth as the company experienced in 2022 can also cause major issues. These issues may include significantly increased workload for employees and therefore decreased productivity if hiring does not keep up with employee demand (Business Queensland, 2019). In addition, a company's supply chain could become overloaded if it is not prepared, causing the business expensive delays.

Net profit over these years was similarly inconsistent. Net profit in 2018, 2020, and 2021 remained positive (£6.2M, £3.8M, and £2.9M, respectively), but profit in 2019 was an alarming -£11M and -£2.9M in 2022, even while YOY growth was 28% that year (Fame, 2024).

Levi Strauss's current ratio over the second five-year period was fairly standard for the industry with the exception of 2019, during which the company's current ratio was 1:0.73, which informs that the brand struggled to pay short-term liabilities that year. The current ratio in 2020 was slightly high, at 1:1.94, but not particularly worrisome.

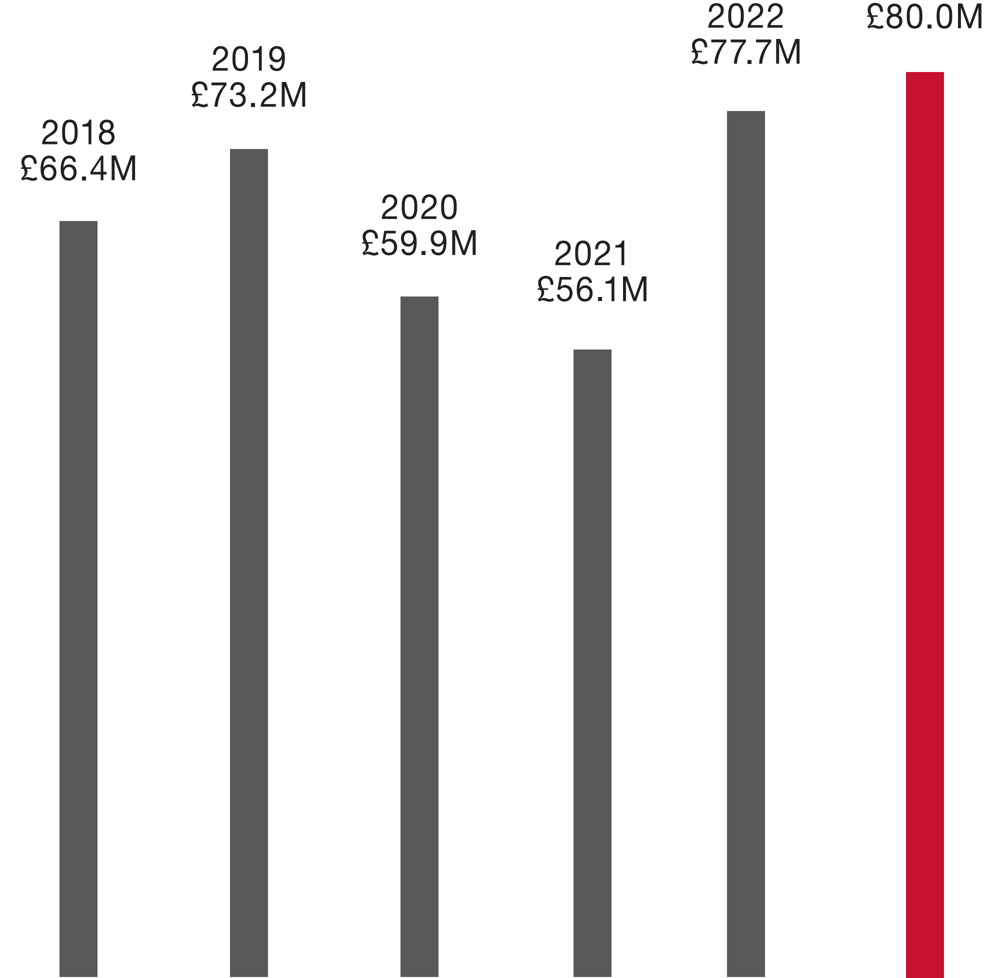
Image [Adapted from] Levi's (2024)

CURRENT PREDICTION

SECOND SET OF YEARS	2018	2019	2020	2021	2022	PREDICTION
SALES	£ 66,416,000.00	£ 73,159,000.00	£ 59,947,000.00	£ 56,134,000.00	£ 77,735,000.00	£ 79,998,800.00
NET PROFIT	£ 6,207,000.00	-£ 11,010,000.00	£ 3,780,000.00	£ 2,899,000.00	-£ 2,856,000.00	-£ 4,668,600.00
YOY GROWTH	12%	9%	-22%	-7%	28%	4%
CURRENT RATIO	1.15	0.73	1.94	1.6	1.22	1.63
WORKING CAPITAL	£ 3,173,000.00	-£ 7,372,000.00	£ 19,300,000.00	£ 23,458,000.00	£ 8,793,000.00	£ 22,091,400.00
GEARING	22.81	142.87	51.24	132.99	189.61	107.9

Figure 9: Current 5-year prediction (Source: [adapted from] Fame, 2024)

PREDICTED SALES, 2023



ANALYSIS

Predicted sales for 2023 were calculated in the same way as they were in the initial prediction, by finding the average increase in sales YOY and adding that amount to 2022 sales levels, resulting in an estimated sales revenue of £80M for 2023. This continues the overarching positive sales growth Levi Strauss has experienced over the duration of time analysed in this report (FAME, 2024).

Figure 10: Levi Strauss & Co. predicted sales, 2023 (Source: [adapted from] Fame, 2024)

As before, net profit was calculated in the same way, though this time the estimation is less optimistic, with a predicted -£4.7M in profit during 2023. As with any measure of prediction, the one used here is flawed and is likely skewed by the drastic net profit of -£11M in 2019, and the actual figure is likely higher than predicted using the method described.

YOY growth was predicted to be 4%, a solid, healthy figure for the company (McKinsey & Company, 2024). Once again however, this measure of prediction is by nature flawed and as mentioned earlier, actual YOY growth over 2018 to 2022 ranged from -22% to 28% and does not lend itself to simple prediction.

Image [Adapted from] Levi's (2024)

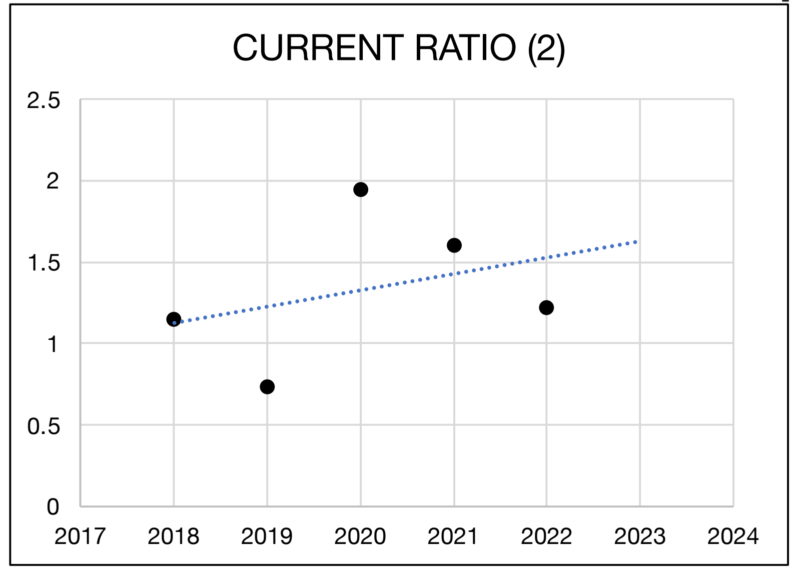


Figure 11: Current ratio, current prediction (Source: [adapted from] Fame, 2024)

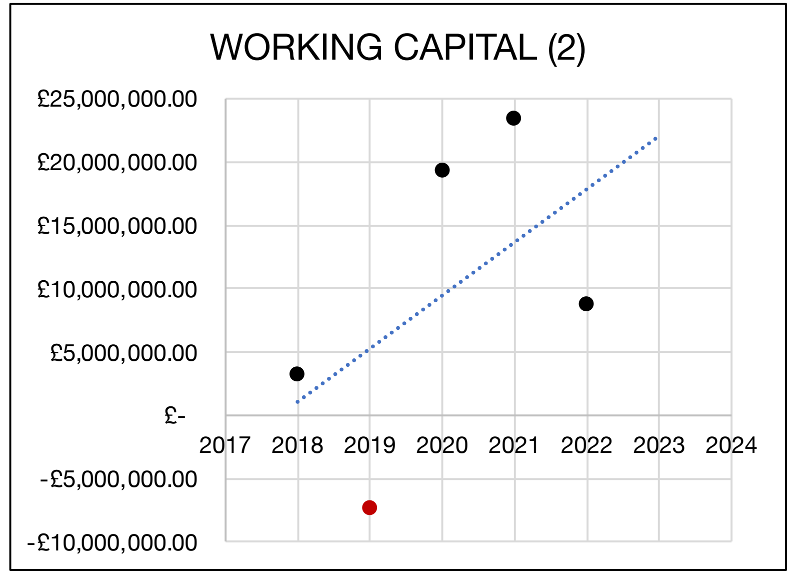


Figure 12: Working capital, current prediction (Source: [adapted from] Fame, 2024)

CURRENT PREDICTION

Current ratio was predicted using a line of best fit, as described in this report's initial prediction section. The current ratios for this period of time were more stable and together formed a more positive outlook, at an estimated 1:1.63 in 2023. This is slightly high for the industry, but not seemingly worrisome, and an upward trend suggests that the company can easily pay short-term liabilities in the immediate future.

Working capital was predicted to be £22M in 2023 and was again calculated using a line of best fit. This ratio over the second set of years was fairly varied and therefore will not produce as accurate of an estimate as a more stable data set would have.

Gearing for 2023 was predicted to be 107.9 using a simple average. Although this figure is pronouncedly higher than any of the first set of years, the predicted gearing of 107.9 appears to conform to gearing during other years of the 2018 to 2022 time period. As mentioned, the incongruence of gearing during the first and second sets of years is possibly due to a change in business strategy where the company utilises more external funding to finance business operations.

If this strategy were to be used more heavily, perhaps driven by suboptimal net profits, the brand's gearing ratio would be higher than predicted in this report (Young, 2020).

Image [Adapted from] Levi's (2024)

STRATEGY [EXTERNAL]

Once again, it is important to note that the scope of this report is limited due to length requirements and other. Therefore, only three PESTLE factors (social, technological, and legal) will be discussed. The three factors were selected based on the brand, world events, and information availability. Internal factors have been selected similarly.

SOCIAL

In a wider social movement led in no small part by Gen Z, consumers are demanding sustainability and honesty from brands, preferring to shop from sustainable brands even if it is more expensive, or buying secondhand, which has destigmatized the practice and has even made thrifting and pre-loved fashion trendy (Petro, 2021).

Levi's jeans, especially the brand's classic 501 style, have experienced a resurgence in popularity lately, a trend especially notable in the Gen Z, celebrity, and fashion sets, coinciding with the 'buy better, wear longer' movement popular with young consumers (Hartmans, 2022). Levi's would do well to capitalise on this via marketing and social channels.

TECHNOLOGICAL

To aid in traceability, brands are investing in and utilising new technologies across their supply chains. Adidas, for example, has adopted TrusTrace, a platform which utilises blockchain systems and big data to improve supply chain visibility and track products through supplier tiers and plans to source 100% recycled polyester by the end of this year, according to TrusTrace (2024). Levi Strauss does not appear to have a plan to implement such technologies to improve product traceability according to their sustainability report, though the brand may do well to do so in the future in order to more easily comply with upcoming sustainability regulations (Levi Strauss, 2023).

Amidst the buzz about generative AI (artificial intelligence), fashion brands are looking to incorporate the technology into their business models. Contributors at McKinsey & Company have identified areas where AI has the potential to benefit fashion brands, including merchandising (for example, individual product personalisation based on body type), e-commerce (for example, personalised product recommendations), and operations (for example, optimising store layout), among others (Harreis et al., 2023).

STRATEGY [EXTERNAL]

LEGAL

A variety of sustainability legislation is set to come into effect or be voted on this year. The proposed Corporate Sustainability Reporting Directive (CSRD) would require companies to report on their ESG (Environmental, Social, Governance) activities through a standardised framework, making it easier on consumers to accurately assess a brand's sustainability credentials (BoF Team and McKinsey & Company, 2024).

Brands such as Puma have expressed concern over fulfilling the directive's requirements due to a widespread lack of transparency in fashion's supply chains (BoF Team, 2024). Because of this, Levi's should be looking to increase traceability immediately in preparation for this directive or similar to go into effect.

Following Britain's exit from the European Union on 31st January 2021, brands have been forced to navigate added tariffs, VAT, and imports and exports paperwork, among other issues (Tatum, 2023). Although Levi Strauss trades elsewhere in addition to the UK, the company's English branch will be subjected to these additional hurdles.

Image [Adapted from] Levi's (2024)

STRATEGY [INTERNAL]

ATTRACTING NEW CUSTOMERS

In 2022, Levi Strauss spent almost £370M on advertising, presumably to interest new customers, while efforts and incentives for existing consumers are not apparent and perhaps nonexistent (Statista, 2024).

Going forward in the age of media exhaustion and information fatigue, Levi Strauss would do well to focus on consumer retention, as these consumers are about 50% more likely to purchase goods, 50% more likely to try new products, and are willing to spend more than 30% more than their counterparts, yet 44% of brands still focus more on attracting new consumers (Saleh, 2024).

As Levi's is a heritage brand, a consumer retention strategy makes sense as for the company.

PRICING

The brand's CEO explains that Levi Strauss's strong pandemic recovery was bolstered by strong brand equity and product diversification (Husband, 2022).

For reference, prices on the brand's classic men's 501 jeans range from about $55 to over $300 (Levi's, 2024).

Light (2020) explained that Levi Strauss's GBB strategy corresponds to about $40 (good), $60 to $80 (better), then anything above that (best), but warns that price and value are not the same; brands decide the pricing, but consumers will decide the value of a product.

Going forward, in combination with consumer retention, Levi's should consider leveraging AI and consumer data to better understand their target demographic's perception of value and price accordingly.

Image [Adapted from] Levi's (2024)

CONCLUSION

RECOMMENDATIONS

Based on the analysis conducted and the justification within the strategy section of this report, Levi's should do the following to maximise profits.

1. FOCUS ON CUSTOMER RETENTION
2. EXPLORE CONSUMER PERCEPTION OF VALUE
3. LEVERAGE AI FOR INCREASED PERSONALISATION

Image from Levi's (2024)

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