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NEWS *Watch*

L E V I S T R A U S S & C O .

News in Brief

August and Year-to-Date Financials

Preliminary reports show August as the twenty-first month of record sales for LS&CO.

Brittania and Menswear achieved record August unit and dollar sales. Shirts achieved record dollar sales for the month.

All companies (LS US, LSI, Brittania) posted record year-to-date dollar sales with LSI and Brittania posting year-to-date unit volume sales.

Key Task Force Recommendation Imminent

By the end of October, the global sourcing task force should complete the first phase of its work—a comprehensive analysis of the global sourcing issues confronting the Company. With the completion of this first phase, the task force will be able to present to the EMC its conclusions on the most effective and responsive organizational structure for managing the Company's worldwide manufacturing base.

The next phase is to address the major sourcing issues facing LS&CO. including: how do we best utilize our existing worldwide manufacturing facilities? For what standards will we hold our domestic and offshore contractors accountable? And how much more and when will we increase 807 sourcing?

Members of the task force represent a wide range of functions and experiences. They include: Ray Cavender, 807 Sourcing; Rich Deres, LSUS Controllers; Linda Glick, Information Resources; Emily Morgan, Shirts; Doug Nelson, LSUS Operations; Guiseppe Righini, LSI Latin America; Mark Sampson, LSI Operations; Bruce Stallworth, Finance and Lindsay Webbe, Brittania. The task force chair is Gary Grellman, Director of Planning and Analysis.

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807 Sourcing: Balancing Global Manufacturing

To some, "807" might sound more like a new line of Levi's® jeans than an integral part of the Company's business. But with worldwide sourcing identified as a key issue for LS&CO., the Company is taking 807 sourcing very seriously.

807 sourcing is named for U.S. Customs Code 807, which states that a Company can cut fabric in the United States, send it abroad for assembly, and pay duty only on the labor when the garment is brought back into this country. For the Company, 807 sourcing means considerable savings in manufacturing costs.

But cost alone doesn't drive sourcing decisions.

"What we're doing is leavening our higher-cost inventory produced domestically with lower-cost 807-sourced products that have longer lead times. Our retail customers have a

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package of requirements including competitive pricing, and we use various means to satisfy them,” explains Pete Thigpen, Senior Vice President of U.S. Operations.

He adds that other customer requirements include high product quality and quick turnaround.

“While Levi’s Owned and Operated (O&O) plants in the United States have the greatest quality control and fastest

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turnaround, 807 locations in Mexico, Central America and the Caribbean are more cost efficient. Combining the manufacturing strengths of both O&O and 807 sourcing best meets customer needs,” says Thigpen.

“We can save between 15 and 25 percent per unit when we use 807 sourcing on Dockers®,” he adds. “But it’s important to note that 807 sourcing is not an end in itself. It is part of a strategy that is helping us meet customer demand.”

The 807 sourcing program has grown significantly in the past few years. While the Company first began using 807 sourcing in 1984 for Menswear, it was the great success of Dockers in 1987-89 that made 807 a viable sourcing alternative.

“It’s played a critical role in the most successful marketing initiative this company has seen,” says Thigpen. “We couldn’t meet the demand for Dockers without the combination of U.S. manufacturing and 807 sourcing.”

Now 807 sourcing contributes to approximately 10 percent of the Company’s U.S. products, including Menswear (Dockers is the largest single customer), Contemporary Jeans, Womenswear, Levi’s for Men, Youthwear and

Brittania®. The Company is also looking at 807 sourcing for Shirts.

“If we satisfy the marketing requests we’ve been given, we’ll be tripling the size of 807 sourcing over the next five years,” says Ray Cavender, Director of 807 Sourcing.

Playing an increasingly critical role in LS&CO.’s manufacturing strategy, 807 sourcing has become a centralized

function within the Company.

“At first 807 sourcing was part of each marketing division,” explains Cavender. “This department didn’t exist until May of 1989, when the Company made the commitment to effectively manage

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807 sourcing.”

While the function is overseen by the LS&CO. home office, field offices in Miami and El Paso handle the day-to-day administration of 807 sourcing in Mexico, Central America and the Caribbean (see sidebar, page 3).

Not only is 807 sourcing cost effective, it also helps position the Company for globalization.

“We can’t think in terms of just the U.S. market over the long term,” says Cavender. “807 sourcing may be used for Europe

and other worldwide locations, when it makes strategic and economic sense.”

“In order to be more aggressive in quality control, flexibility, cost and especially lead time, we may want to form a joint venture or partnership with some of our 807 sourcing locations, especially in Costa Rica and Mexico,” Thigpen says.

Does the centralization and expansion of the 807 sourcing program mean, then, that domestic employees are going to lose their jobs?

“We are moving some product from the U.S. to other countries in the interest of cost efficiency,” Cavender says. “But while there are competitive advantages to assembling LS&CO. materials in Mexico, the Caribbean and Central America, those countries don’t turn our product around as quickly as in the U.S. The

Company’s commitment to quality control and responsiveness ensures that our O&Os will always be in existence.”

“The United States is a critical base for manufacturing, just as are our 807 sourcing facilities,” Thigpen adds.

“It’s like football,” he concludes. “Not everybody plays all positions or is good at all positions. You use the strength of each player to come up with the best team.”

NewsWatch is published periodically for home-office payroll employees of LS&CO by the Corporate Communications Department. Address correspondence to Joyce Bustinduy, Corporate Communications, LS/7, SF.

807 Sourcing From Miami and El Paso

"How did we decide to locate in Miami?" Dale Brewer asks. "The market decided for us."

Brewer, who is the Miami Area Manager for 807 Sourcing, established the office there a year ago to handle all administrative aspects of 807 sourcing in the Caribbean and Central America.

"Miami is the port of entry and exit for those areas," he explains. "Two-thirds of the Company's 807 sourcing is done there. Volume and location made this the most logical place to have our office."

Until recently, the "office" was actually Brewer's garage, replete with telephone and fax machine. When his staff of 20 joined him last winter, they moved to temporary offices. Over Memorial Day weekend, they moved into more comfortable quarters.

"We packed up Friday afternoon, moved on Saturday, unpacked on Sunday, organized ourselves on Monday, and were back at work on Tuesday," Brewer says. "Things are happening fast here, and we don't have the luxury of time."

"Our staff sees this as a real opportunity, a job we've taken on with a lot of enthusiasm. We know it's important to the company that this operation be competent and successful."

In El Paso, 807 sourcing from Mexico began in 1986. It had been previously handled from the Company's San Antonio Regional Office, which consolidated into the El Paso headquarters in 1989.

"807 sourcing is a pretty straightforward process," explains Jim Birdwell, Director of 807 Operations for Mexico. "We package and send our piece goods to Mexico, arrange for production and follow up with any problems. When the finished goods come back, we route and audit them."

The El Paso facility, which employs 35 people, also has a print shop that prints vendor marking labels and product code labels for all 807 sourcing as well as some domestic contracting operations.

Almost everyone in the facility speaks Spanish.

"There's a constant training process," Birdwell says. "We need to have the people in Mexico understand our needs, requirements and quality. And it's a learning process for us, too. Mexico is a country with a rich and diverse culture."

"We've got to work not only with the Mexican government, but our own," he concludes. "It's a cooperative effort and, so far, it's working well."

WANTED: SUCCESS STORIES

Here's an opportunity to recognize outstanding individual or team efforts in future editions of *NewsWatch*. When you encounter an individual or group of people especially cooperative, service-oriented, someone who completes an assignment—large or small—under difficult circumstances, or anyone who turns in an especially good piece of work, let us know.

Readers have asked for specifics of how employees use aspirations/new behaviors in their everyday work. *NewsWatch* would like to share these examples, too.

Contact Joyce Bustinduy, Corporate Communications, San Francisco, or send a PROFS to \$BUST1.

K-Mart Honors Brittania®

Brittania Sportswear, Ltd. is the proud recipient of a K-Mart vendor recognition award for excellent service. The only apparel awardee, Brittania was chosen over companies with more than 20 years of service with K-Mart. Brittania has been a K-Mart vendor for a little more than two years.

Social Benefits Deadline

Get a check to your favorite nonprofit organization sooner by submitting your Social Benefits application well ahead of the December 1 deadline. The new application—simpler than before—allows you to get matching donations from the Levi Strauss Foundation for your own gifts to an volunteer work for nonprofit organizations.

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Employee Meeting

Plaza employees packed the auditorium for the September 14 employee meeting to hear discussions ranging from "Where is LS&CO. going in the 1990s" to "What is it really like to work on a task force?"

President and Chief Operating Officer Tom Tusher made a presentation about LS&CO.'s strategic business plan. He talked about the basic business and marketing strategies that have worked well in recent years and said there is no reason to change the business fundamentals, strategies and directions we've been pursuing.

Tusher also talked about five key topics that emerged from the strategic business planning process: change, continuous improvement, customer service and satisfaction, being global and a future sourcing strategy. (See the August 22 issue of *NewsWatch* for a special series of articles on LS&CO.'s strategic business plan for the 1990s.)

If you missed the meeting, you can borrow a video tape by calling (415) 544-7224.

"Hot Pants"

A truckload of Levi's® jeans was hijacked and LS&CO. truck drivers, Jim Tash and Doug Shaw, were kidnapped on August 28. Jim and Doug, handcuffed and blindfolded, were released in fair condition in Los Angeles on August 30, but their cargo and hijackers are still at large.

The drivers picked up the 14,700 units of rigid, unfinished jeans from the Albuquerque 501M plant and were on their way to the San Antonio finishing center when their truck was waylaid. The FBI is currently investigating the case.

New Citizens

In El Paso, 638 LS&CO. employees and their family members kicked off their Labor Day weekend by becoming U.S. citizens. This is the second year in a row this type of event launched the end-of-summer holiday for LS&CO. employees. Last year 658 employees and their families became citizens.

This swearing-in event is the result of a unique corporate-government citizenship program developed by the U.S. Immigration and Naturalization Service.

Good Housekeeping Seal

LS&CO. is cited as one of the 69 top companies for working mothers in the August 1990 edition of *Good Housekeeping* magazine. Among the attributes putting LS&CO. on the list are: generous leave policies, good childcare benefits or referral programs, flexible work schedules, elder care assistance and employee assistance programs.

If you want more information on LS&CO.'s child care programs, please contact Meg Franklin at the Plaza at x7375.

Teaching Healthy VDT Work Practices

A video display terminal (VDT) education program will be introduced to all Plaza employees in October and November. Computer users outside of the home office will receive training in early 1993. The program, designed specifically for LS&CO., concentrates on safe and healthy workstation practices.

LS&CO.'s education program will address employees' concerns about working with VDTs. It covers health and safety issues relating to VDT usage, including repetitive motion injuries and low-frequency electromagnetic emissions. The program also demonstrates workstation adjustments and relaxing exercises for computer users.

Each manager will be given a VDT education packet. Employee Relations representatives will either teach the program to employees in their groups, or train department managers to lead the sessions.

"I believe this program addresses important issues and will contribute to a safer work environment at LS&CO.," says Bob Haas, Chairman and Chief Executive Officer. "The program is packed with useful information for all employees, particularly those who spend time working at a computer."