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Levi's Cuts e-Pants Short

ONE WONDERS HOW PAINFUL the inevitable retailer backlash had become. Levi Strauss was a pioneer among manufacturers seeking to bring branded goods direct to the consumer over the Internet beginning in November of 1998. Now comes word that the company will back away from that strategy by year end, allowing its retail partners to do the selling instead.

The San Francisco-based company, which has been operating transactional sites for both its Levi's and Dockers lines of casual clothing, said two of its largest retail customers, J.C. Penney and Macy's, would begin selling its products on their web sites after the holidays.

Levi's public explanation for this turnabout is the unsustainable high-cost of operating a "world-class e-commerce business." We think channel conflict might be more candid explanation.

For consumer product manufacturers, strategically powerful distribution depends upon favorable relationships with the retail trade. Selling your products on line in competition with your best customers is probably not the best way to curry favor with them and win in-store support for your brands. In fact, it's a pretty good way to get your trade marketing kneecaps broken, figuratively speaking.

The arrival last month of new Levi Strauss CEO Philip Marineau lends an underscore to this interpretation. The former PepsiCo, Dean Foods and Quaker Oats executive has a long track record in the packaged goods arena. As his greatest past achievement — with Quaker's Gatorade brand — would suggest, Marineau understands the crucial role of a strong distribution system to a brand's success.

It seems, after all, that branded product manufacturers really can't have it both ways. In theory a strong-enough brand should be able to choose the consumer-direct route with impunity, leaving retailers with no choice but to grin and bear it. But today's largest retailers are in many ways more powerful than the brand marketers, and they have many choices of branded product to sell, online and offline.

Levi Strauss has tested its considerable brand power in this arena and is now backing down. In its experience lies a sobering message for other brands who are being seduced toward disintermediation by the dot-com frenzy.

Web sites referenced in this edition:

<http://www.levi.com/>

<http://www.dockers.com>

<http://www.levistrauss.com>

Best of the press:

San Francisco Chronicle (Oct. 29, 1999): "Levi Strauss Will Halt Sales On Its Web Sites,"
<http://www.sfgate.com/cgi-bin/article.cgi?f=/chronicle/archive/1999/10/29/BU38847.DTL>

CNET News (Oct. 29, 1999): "Levi's to back off Net sales after holidays,"

<http://news.cnet.com/category/0-1007-200-1425314.html>

The Industry Standard (Oct. 29, 1999): "Levi's Sites Wear Out,"
<http://www.thestandard.com/articles/display/0,1449,7321,00.html?rm.tnf>

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