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LEE

BUSINESS PROFILE
OF AN AMERICAN JEANSWEAR MANUFACTURER

Report commissioned by the
EUROPEAN TRADE UNION COMMITTEE
TEXTILES, CLOTHING and LEATHER
(Brussels)

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November 1991

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1. INTRODUCTION

Henry David Lee was born in Vermont (US) in 1849. The H.D. Lee Mercatile Cy was set up in Salina, Kansas, in 1889. Initially the company sold foodstuffs and working clothes. In 1911 Lee began manufacturing denim overalls (denim from de Nîmes), and the company has since been known as a jeanswear manufacturer.

The Union-All for mechanics and train engineers was introduced in 1913 ; four years later the Army made the Union-All their working uniform. During the First World War Lee began to make jeans for women, the Lady Frontiers Jeans, women beginning to participate in the production process to (temporarily) fill the jobs that men used to do.

The first shrink-proof jeans, the Sanforized, was introduced in 1920. It was followed, in 1924, by a jeans for cowboys, which was later to become hugely popular as the Lee Riders. Two years later again, Lee was the first to make jeans with zippers. The leather strip with the Lee trade-mark was used for the first time in 1936.

Europeans had to wait until after the Second World War to become acquainted with jeans, although the product will not really become popular until the sixties, when the first jeans plant in Europe was built. Lee Europe was set up as an autonomous company, manufacturing, distributing and marketing Lee products in Europe. It is only the technical know-how, from cutting the fabric to finishing the product, which was provided by Lee in the US.

Vanity Fair Mills Inc., a manufacturer of ladies' underwear, was set up in 1899. The name was changed to VF Corporation in 1969, when the company took over the jeans manufacturer H.D. Lee Corp. Today VF Corporation is the largest clothing manufacturer listed at a stock exchange¹, with a turnover of \$ 2.6 billion in 1990. To be sure, Levi Strauss & Co, the number one producer of jeans, has a higher turnover (\$ 3.1 billion in 1990), but the company is a private-owned one.

The headquarters of VF Corporation are in Wyomissing, Pennsylvania (US). Mr Lawrence Pugh has been the president of the concern since 1983. In 1990 VF ranked 171st on Fortune's list of the 500 largest industrial companies in the US.

¹ VF Corporation's shares are listed at the New York Stock Exchange under the symbol VFC. On March 1, 1991, there were 57,014,473 ordinary shares, with an aggregate market value of about \$ 1,170 million. There are, in addition, 2,103,000 shares of the series B ESOP Convertible Preferred Stock, which are convertible into 1,682,664 ordinary shares. (ESOP = Employee Stock Ownership Plan)

Lee has its American headquarters in Merriam, Kansas, which is part of Kansas City, Missouri. The US market has always been more important to Lee than the European market.

Outside the US, Lee products are sold via the company's own sales offices and via independent distributors. The European headquarters used to be near London until 1983, when Lee Europe NV moved to Sint-Niklaas in Belgium, from where the company will go to Brussels (Belgium) in the near future. All the European activities are directed from the Belgian headquarters. Rough estimates put the number of people employed by Lee Europe at some 2,000, of whom some 1,100 to 1,200 on the European mainland. For Lee, as well as for its competitor Levi Strauss, it is the British market which is the most important, although Germany too has grown into a major market.

Lee has branches in twelve European countries : Belgium, the United Kingdom (Northern Ireland), Ireland, Malta, the Netherlands, Germany, France, Spain, Portugal, Norway, Finland and Denmark. It is in the first four of these countries that the products for the European market are manufactured.

Until 1982 the jeans used to be sold under the following brand-names : Lee, Lee Riders, Leesures, Ms. Lee and Lady Lee. After 1982, the chief brands were Lee, Lee Riders and Ms. Lee. In recent years the major products have been known as Lee Rough Riders, Lee Gossip, Lee Basics and Lee Casuals. Lee Rough Riders (meant for the sturdy he-man) was introduced in 1986-87 and was Lee's best-selling product in 1989. Lee Gossip, it too introduced in 1986-87, is the rather unengaging name of a jeans meant for women between the ages of 15 and 30 : "Lee Gossip, jeans for girls made by girls."² Lee Basics includes Lee Riders (the traditional jeans with five pockets), Lee Chino (leisurewear in gabardine and denim), and Lee Union Made (fashionable jeans for boys and men between 15 and 25).

The present report is structured as follows : Chapter 2 will deal with the jeanswear industry, and will look, firstly, at the market itself, including a survey of Lee/VF's major competitors, and secondly at some general trends. Chapter 3 will study VF Corporation and Lee, successively, looking into the two companies' policies and financial situations over the last few years. Chapter 4 will deal with the various branches of Lee Europe. Chapter 5, finally, is the conclusion. In the addendum the reader will find a list with the addresses of Lee's European branches and of the main offices in the US.

² Lee News, on the centenary of Lee in 1989.

2. THE JEANSWEAR INDUSTRY

a. The market

The jeanswear market is very much subject to changes. Jeans used to be hugely popular in the sixties and seventies. In the eighties, however, the product's popularity decreased dramatically, as adults took to wearing looser clothes. In 1981, 500 million jeans were sold in the US, against a mere 430 million in 1985. In Europe sales fell even more steeply, from 250 million in 1981 to 150 million in 1985. Lee's market share rose from 2% in 1980 to 13% in 1985.³

In 1986 sales picked up again, both in the US and in Europe, with 490 million and 180 million, respectively : overall, a value of some \$ 6 billion in 1986. In that year, the acquisition of Blue Bell meant that VF Corporation had as many as four nation-wide brands instead of one, viz. Lee, Wrangler, Rustler and Girbaud. All this amounted to a US market share for VF Corporation of some 25%.

However, by 1989 sales had plummeted again, some 387 million jeans being sold in the US market. The turnaround came the following year, in 1990, and sales rose to 412 million jeans, for a value of \$ 7.1 billion.

In 1988 VF Corporation raised its share of the American jeans market from 25% to 27%, the increase being due to the successful sales of Wrangler, Rustler and Girbaud. Wrangler is the number one in western-fashion clothing, Rustler is a basic trade-name in discount business, and Girbaud focuses on fashionable top-of-the-range market segments. Rustler was the fastest growing trade-name in the whole jeanswear market in 1988. As for Lee products as such, their sales declined in 1988, although they still had a market share of about 13%. The following year, 1989, is another lean year, Lee's market share dropping to 11%.

In the market segment of girls' and women's jeans, Lee has a bigger share than its sister company Wrangler. In contrast, Wrangler and Rustler (the latter belonging to Wrangler) have a combined share in the market of boys' and men's jeanswear which is larger than Lee's.

Wrangler alone (i.e. without Rustler) is a fifty-year old name with a 9% share in the men's jeans market. Five years ago, the company began to build up a position as a brand for the whole family. It has a marketing programme that goes by the name of "American Hero", offering stylish leisurewear jeans for the blue-collar worker and his family.

³ Annual Report VF Corporation, 1986.

Lee's share in the market of women's jeans stands at nearly 19%. In 1990, Gitano was the only company to sell more women's wear (including non-jeans articles) on the US market than Lee.⁴ Lee's success with men is less than stunning, witness a market share of about 10%, and the company is making an effort to turn the situation around : new campaigns concentrate on the target-group of older men.⁵

In the US, Lee sells mainly to "upscale discount stores, department stores and mass merchandisers".⁶ Wrangler, for its part, addresses stores specialized in Western-fashion clothing. Both Lee and Wrangler have show-rooms in the major US cities. Full-time sellers sell Lee and Wrangler products directly to the retailers.

Lee is trying very hard to be in the limelight and has launched costly promotion campaigns. The motto Lee most often resorts to these days is quite simply that Lee jeans are a good fit. The sizes are those that fit people born right after the Second World War, and that happens to be the group who like wearing jeans.

When market research revealed that 82% of all jeans are bought by women, Lee refocused its US market advertising on women between the ages of 25 and 45.⁷ The publicity campaigns assume that it is these women who buy jeans for their families and who decide which brand to choose, whereas men most of the time do not know which brand of jeans they are wearing. Mr Mike Fazende, manager of the advertising agency Fallon McElligott, describes the average buyer of Lee products (in the US) as follows : "The average consumer is likely to be a housewife with several children and an estate car."⁸ The new campaign was launched in August 1990 and it is the third in less than five years. This time Lee hopes to succeed in building up a lasting image. One analyst claims that Lee has never given an idea the chance to catch on and thus finds itself faced with identity problems.⁹

The present General Manager of Lee Apparel Co, Mr Frederick J. Rowan II, firmly believes in the power of publicity messages. He feels they are at least as important to Lee as establishing close ties with the retail trade. In the autumn of 1990 Lee decided to spend more than \$ 30 million on an advertising campaign around

⁴ Discount Store News, October 1, 1990.

⁵ USA Today, August 18, 1991 ; Adweek's Marketing Week, August 5, 1991.

⁶ Form 10-K, 1990.

⁷ Daily News Record, June 11, 1990.

⁸ Adweek Eastern Edition, August 6, 1990.

⁹ Adweek's Marketing Week, July 23, 1990.

the back-to-school theme.¹⁰

Lee is also active in the market of jeanswear for children and youngsters. Sales of children's wear make up about one third of Lee's aggregate turnover. One market research bureau ranks Lee number one in the US market for children's jeanswear. That success is attributed to Lee's outstanding position in the market for 4 to 13-year old girls and for children up to 3. Lee ranks only third in the market for boys (after Levi and Rustler).¹¹ In the US, Lee has its products assessed by groups of children. Still, the present trend appears to be that youngsters, and children in particular, are less interested in jeans than adults.

Over the past ten years Lee has become the leader in wet processing, by which method a fashionable finish can be obtained. The jeans are produced "wet" or they are washed with given chemicals or pumice in order to achieve a well-defined result.

Right now, however, the most sought-after jeans is the jeans which looks worn, an effect which is obtained by sandblasting the article. Another trendy model is the jeans with rips and rents on knees and thighs.

Levi Strauss & Co, from San Francisco, the first company to use jeans fabrics, has had the largest market share for years (about 19%), followed by Wrangler until 1984 and by Lee after 1984. In 1989 Levi as well as Lee saw their market share drop by 2%. Levi has traditionally sold well to boys and men (market share of some 30%). The company has made women's jeans since 1981 (with a market share of 5%); surprisingly, a recent market survey among women revealed that 70% of the respondents were not aware of this. Therefore Levi's new strategy is to highlight its jeans for women, and the company has earmarked some \$ 12 million for an advertising campaign in dailies and magazines. However, analysts do attribute the revived general interest in jeans to the original design of the Levi 501.¹²

¹⁰ Women's Wear Daily, June 18, 1991.

¹¹ Market Research Corporation of America, Stanford, Connecticut, as quoted in Children's Business, June 1990.

¹² Adweek's Marketing Week, August 5, 1991; USA Today, August 18, 1991. Adweek's Marketing Week of July 23, 1990, quotes a market share for Levi of 22%, not of 19%, and The Observer of September 29, 1991, even puts Levi's market share at 25%.

Levi has the workers in its US plants work short-time, and has laid off 1,200 to 1,600 of its 32,000 employees. Another measure of the slump in the jeans sector is the move about to be made by Lee Cooper, a daughter company of British Vivat Holdings: its remaining European plants are to be closed down, and production is to be contracted out to the Far East and to the only remaining plant that Lee Cooper has left (in North Africa).

In 1987, and taking volume as a yardstick, we find that nearly 80% of the European jeans market is controlled by smaller manufacturers. Levi ranks first with a market share of 11% (by volume), followed by Wrangler with 3%. Lee, Lee Cooper and Pepe share the third place with 2% each.¹³ Levi's strong position is partly the result of the huge advertising efforts which the company has made over the past ten years. As Mr Derek Woodgate, marketing director of Lee Europe, puts it : "A jeans manufacturer will not find it very hard to corner a market share of 2% ; but to climb higher than 2% is truly an uphill task. We are aiming at a market share of 5% in all European countries, and we have already achieved that goal in several countries. In fact, it is only the three big manufacturers, Wrangler, Lee and Levi's, who can hope to do that."¹⁴

Table 1 lists the market shares (by volume) of the major jeans manufacturers in the US and in Europe for 1987. Overall, the consumers bought 490 million jeans in the US and 180 million in Europe. Of these sales, Lee accounts for 68.6 million in the US and 3.6 million in Europe.

Table 1. Market shares (by volume) of jeans manufacturers in the US and Europe in 1987.¹⁵

	US	Europe
Levi Strauss	24	11
Lee	14	2
Wrangler	10	3
Guess	3	--
Lee Cooper	--	2
Pepe	--	2
Others	49	80

Official statistics show that, in 1990, 41 million jeans were sold in Britain, of which it is estimated that some 27.5 million were also manufactured in Britain. Of that volume, 21.3 million were jeans for boys and men. The value amounted to £ 206.5

The Financial Times of March 22, 1989, says that Levi laid off more than 15,000 people in the eighties, and closed down 30 plants in the US and another 25 in other countries. Both Levi and Wrangler, which took similar measures, returned into private ownership by means of leveraged buy-outs. In so doing Levi was successful, whereas Wrangler failed. That is why VF Corporation could take over Blue Bell, Wrangler's parent company, in 1986.

¹³ Marketing Week, November 25, 1988.

¹⁴ Nieuwstribune, Week 41, October 10, 1991, p. 11.

¹⁵ Financial Times, March 22, 1989. Industry's estimates.

million. The year before, in 1989, the number of imported jeans was larger than the number of jeans manufactured in Britain itself : 25.9 million against 23.3 million, respectively.¹⁶

In Britain, the giants among jeans manufacturers have consistently performed better than on the European mainland. In the seventies, Wrangler was the market leader in Britain. According to the company's senior executive, Mr John Hart, in 1988 it still had a share of some 10% (by value) of the British market, against 5.5% for Lee.¹⁷

In 1990 Lee still had a market share (by value) of 5.5% or 6% (the figures vary according to the source), whereas Wrangler's share dropped to 7.5%, and Levi's dropped by 0.5% to 16%. Pepe grew by 1% to 11%. In Europe, Pepe has the same image as Guess in the US : a new and successful jeans introduced by immigrant brothers. All of Pepe's products are manufactured in South-East Asia.¹⁸

Levi Strauss's market share in Britain (by volume) rose continuously after 1986, standing at 20% in 1990. Still by volume, Lee merely ranks fifth, with a market share of 6% ; it is worth noting that 12 to 15% of Lee's turnover in Britain is accounted for by Lee Gossip for women. Marks & Spencer is particularly strong in jeans for women and children.¹⁹

Table 2 lists the market shares (by volume) of the major jeans manufacturers in Britain for 1990. Table 3 gives their shares by value for 1991 ; unfortunately the shares of Wrangler and Lee are not quoted separately.

Table 2. Shares (by volume) of jeans manufacturers in the British market in 1990 ²⁰

Levi Strauss	20
Pepe UK	11
Wrangler	9
Marks & Spencer	7
Lee	6
Falmer	3
European brands	6
Others	38

¹⁶ EIU Retail Business no. 400, June 1991.

¹⁷ Marketing Week, November 25, 1988.

¹⁸ Marketing Week, November 25, 1988 ; PRM, March 30, 1990 ; Financial Times, March 22, 1989, and March 10, 1990.

¹⁹ EIU Retail Business no. 400, June 1991.

²⁰ EIU Retail Business no. 400, June 1991, p. 26.

Table 3. Shares (by value) of jeans manufacturers in the British market in 1991 ²¹

Levi Strauss	18
Pepe	10
Wrangler and Lee	10
Falmer	5
Lee Cooper	5
Lois	5
Others	47

The major manufacturers have had to deal with several actions undertaken by consumer organizations. One example is the successful campaign waged in the US in 1988, when the International Society for Animal Rights (ISAR) attacked Levi and Lee on account of their tests on animals. Lee was trying to find out if there was any danger that "frosted" (washed in acid) jeans might cause eczema in human beings, and used mice to experiment on. Under the pressure of the campaign, Lee changed tack. Next Levi was threatened with a boycott action, and backed down before any harm was done. Guess's sexist advertisements as well were the object of much criticism in the US.

Further action was undertaken in the US against "stone-washing" of jeans products in general. In 1987, the Jemez Action Group of New Mexico launched a campaign against jeans washed with pumice, since the mining of pumice in the state of New Mexico constitutes a threat to both animal and plant life there. Moreover, the process pollutes the water in the neighbourhood of factories that use it in the manufacture of jeans. The protests made companies temporarily switch to the use of special enzymes, but these were found too expensive and today it is again pumice that is used.

Another problem with the "washed" jeans is that they last less long than the normal product. Also, the manufacture of jeans requires cotton, which is usually grown by means of the extensive use of pesticides, for example in developing countries (which may be very dependent on the export of just this one single commodity). The US does produce some organic cotton, but to our knowledge this is not yet used in jeans manufacturing.²²

In 1991 Lee is launching a \$ 10 million advertising campaign on the European market. The campaign has been planned and designed at the London and Brussels offices, and it is to be adapted to be used in ten European countries, whereas in the past advertising campaigns used to be aimed mainly at Britain and Germany. Mr Michel Verhelst, of Lee Europe, argues that Lee must adopt a truly worldwide strategy, and that Lee's European advertising budget has been increased for this purpose. The campaign will not focus on the company's individual sub-brands, such as Riders or

²¹ The Ethical Consumer, April/May 1991.

²² The Ethical Consumer, April/May 1991.

Gossip, but is to increase the public's acquaintance with the name Lee. The campaign is intended to help Lee cope with its competitor Levi. Initially, the British advertising bureau Yellowhammer was hired in, but after an evaluation of the plans Lee decided to work with another British agent, Grey Advertising.²³

b. Trends

Just like the readywear industry as a whole, the jeans sector has spread its production centres all over the world, and moreover it changes the location of these centres fairly frequently. The reason why American parent companies have set up in Europe is primarily that they might have access to the European market. As Mr Michel Verhelst, manager of the buying department of Lee Europe, says: "Things tend to move fast, and you have to be very close to the market to be able to react immediately."²⁴ Still, Lee clearly tends to locate its European production centres in those countries or regions where wages are low and where the authorities provide extra benefits and privileges. As a rule, these advantages are to be found in the peripheral regions of Europe, such as Northern Ireland or Scotland.

The practice of constantly moving production centres has often been criticized, and actions have been undertaken against, for example, Lee and Levi. In 1981, Lee was going to close down its plant in Greenock, Scotland, although VF Corporation was earning good profits in that year and although the plant in Scotland compared well enough with the company's other production facilities. VF had decided to concentrate its production rather more in Northern Ireland, where it already had stitching units, and where it had opened a cutting unit and a distribution centre not long ago. The Lee plant in Scotland had been set up with the help of substantial public subsidies, and it employed 240 people, mainly women, in a region where jobs were hard to find. The (unionized) workers protested vigorously against the planned closure and occupied the buildings for a period of seven months. They enjoyed the strong support of the British organization War on Want, which criticized the concern fiercely and publicly. VF did not change its policy, but the pressure was so heavy that the plant, including the machines and the complete inventory, was eventually sold to a group of former managers who had founded a new company, Inverwear. In other words, the equipment was not transferred to the other VF plants in Northern Ireland, and the 140 women who had carried on the occupation of the building until

²³ PRM, March 30, 1990 ; December 21, 1990 ; and January 7, 1991.

²⁴ Journal du Textile, no. 1114, April 25, 1988.

the end, were given a job by Inverwear.²⁵

A further aspect of Lee's international mode of operation is that the company has one single central management for the whole of Europe. Lee expects few changes as a result of the advent of the single European market in 1993, since in practice the unified market has existed for some time and since Lee has been working at the European level for several years.²⁶

Apart from internationalization, another trend which is clearly perceptible is that of diversification, i.e. the manufacture of clothing articles other than jeanswear, a trend encouraged by the decreasing popularity of jeanswear. Lee has mainly launched into leisurewear made of non-denim fabrics.

Yet another trend is the extension of the product line, i.e. the manufacture of denim skirts and jackets, and particularly of women's jeans.

It is furthermore tried to put the greatest possible emphasis on the brandname as such, in order to enhance customer relations, in particular the relations with the young consumers between the ages of 15 and 24, who constitute a very important group in Europe.²⁷ Indeed, young people spend a relatively large amount of money per jeans : in the Netherlands this age-bracket (between 17 and 22) pays 106 Dutch guilders on average, the aggregate average being 102.²⁸ In Europe, Lee's target group is on the whole younger than in the US. The company recently had a large-scale survey made among 35,000 young Europeans in order to design its new advertising campaign "especially for young people".²⁹

Brandless jeans on average cost half of the price of branded jeans. Mr Didier Bouquet, sales director of Lee France, says that "the majority of the brandnames cover only some 25% of the market, the remainder going to products without a brandname or carrying the distributor's brand, and these are usually imported articles."³⁰

Also, the manufacturers' policy is to make first-rate quality products, in order to counter the competition from the low-wage

²⁵ Elson & Pearson, *Women's Employment and MNC's in Europe*, 1989, pp. 93-94.

²⁶ *Textile Outlook International*, The Irish Textile and Clothing Industry, July 1990, p. 93.

²⁷ EIU's Retail Business no. 400, June 1991, p. 21.

²⁸ *Texpress*, August 4, 1990.

²⁹ *Nieuwstribune*, October 10, 1991. Interview with marketing director Mr Derek Woodgate.

³⁰ *LSA/hebdomadaire* no. 1099, January 5, 1988.

countries.

In the early eighties new computer-based technologies were introduced in order to economize on skilled (male) labour for designing, pattern-making and cutting, and cheaper (female) labour was employed for assembling. In 1983, 80 to 90% of all workers in jeans factories were women.³¹ Nowadays it is tried to work as rapidly as possible and keep delivery periods as short as possible. To this end new technologies must be invested in, such as multitask systems (in which several tasks are carried out by one worker) which shorten production time.

It is also tried to tighten relations with the sellers ; for example, time can be saved by having the sellers place their orders via computers.

All this obviously requires large primary investments, with which in fact only the large manufacturers can cope.

³¹ Elson & Pearson, Women's Employment and MNC's in Europe, 1989.

3. HISTORY, STRATEGY AND FINANCIAL SITUATION

a. VF Corporation

Lee was taken over by VF Corporation in 1969. A second important take-over was implemented in the same year, involving Berkshire International Corporation, which manufactured nylon stockings and ladies' underwear (the company was wound up in 1976).

The survey which follows covers the period from 1980 until today. First the company's structure will be looked into as well as the strategy it has adopted. Secondly, financial data will be discussed. Finally, the text will deal with the company's production methods and more in particular with the practice of contracting out.

The overall number of workers, both male and female, employed by VF Corporation rose heftily in the first half of the eighties. In 1980 the company had more than 19,000 workers, and that number had grown to nearly 25,000 by 1983, when the concern's turnover exceeded \$ 1 billion for the first time. Two years later, in 1985, the total workforce employed by VF Corporation stood at 32,600 people. In 1986, take-overs accounted for a huge jump to some 50,000 employees, but that number decreased to 43,000 by 1988. In 1990 it stood at more than 40,000.³²

A striking detail is that as many as 55% of the overall number of employees were covered by a collective labour agreement in 1982, whereas in 1990 that figure is a mere 11%. (See also Table 4).

VF Corporation qualifies its industrial relations as good. Still, trade union activities in VF's plants, which are mainly established in the south of the US, are not encouraged.³³

³² VF Corporation puts the number of its workers at some 40,300 in 1990 (source : Form 10-K). However, other figures are mentioned as well : 45,000 and even 47,000.

³³ Elson & Pearson, Women's Employment and MNC's in Europe, 1989, p. 93.

Table 4. Employees of VF Corporation covered by a collective labour agreement (cla)³⁴

<u>year</u>	<u>overall number</u>	<u>cla</u>	<u>%</u>
1980	19,400	9,800	51
1981	20,400	10,800	53
1982	20,600	11,300	55
1983	24,800	12,200	49
1984	31,800	11,200	35
1985	32,600	11,800	36
1986	50,000	8,500	17
1987	49,000	8,700	18
1988	43,000	6,900	16
1989	44,500	7,100	16
1990	40,300	4,600	11

Until 1982, VF Corporation had four divisions :

- * Vanity Fair, ladies' underwear ;
- * Lee, jeans for men, women and children ;
- * Kay Windsor, ladies' wear³⁵ ;
- * International Division, manufacturer and distributor of clothing under the Lee brandname in Canada, Europe and Asia (which was its main activity), and licensor and partner in joint ventures in other regions, and distributor of Vanity Fair products.

In 1982, the Kay Windsor division and the production of ladies' wear was given up. From then on, the names International Division and VF International were used interchangeably and stood for the same activities.

In 1984 the take-overs of Bassett-Walker Inc., Modern Globe Inc. and Troutman Industries Inc. resulted in a new line-up of divisions, VF products being designed, manufactured and marketed by :

- * Vanity Fair ;
- * Lee ;
- * Bassett-Walker, designer and manufacturer of sportswear, such as sweatshirts and jogging-suits, for men, women and children, including the company's own brandnames Bassett-Walker and Gadabouts ;
- * Modern Globe, ladies' underwear and nightwear in cotton, and men's shirts and underwear in cotton ;
- * Troutman, sports trousers for men and boys ;
- * VF International.

In 1985-86 there followed more take-overs : Avedon Industries Inc., and D/B/A Willis and Geiger Inc., which manufactured high-

³⁴ Form 10-K (of the various years concerned).

³⁵ Kay Windsor Inc. had been taken over VF Corporation in 1971.

quality adventure and expedition clothing, amongst others under the brandname Willis & Geiger.

Take-overs in 1986 involved Blue Bell Holding Co. Inc., the manufacturer of Wrangler jeans ; Red Kap work-clothing ; Jantzen sportswear ; JanSport, university student clothing and mountain climbers' wear, all of them for an amount of \$ 762,250,000.³⁶ The Troutman division was discontinued.

From 1986 on, there have been four product groups :

- * Jeanswear, with Lee, Wrangler, Rustler and Girbaud, the latter licensed by Marithé and François Girbaud ;
- * Sportswear, with Bassett-Walker, Jantzen, Jansport and (until 1990) Willis & Geiger ;
- * Underwear, with Vanity Fair, Modern Globe and (from 1990 on) Vassarette ;
- * Work clothing, with Red Kap and Big Ben (by Wrangler).

In addition, Pepsi Apparel America was continued for a period of two years. It was a marketing group offering a line of sportswear for 12 to 14-year-olds, licensed by PepsiCo. Inc. and manufactured by VF Divisions. Also, VF International markets most VF articles outside the US.

In 1988, VF sold Blue Bell's Canadian activities to Western Glove Works ; the brandnames concerned, among which Wrangler, will henceforth be marketed via a licensing agreement.

In early 1990 VF bought Vassarette and its production facility Form-o-Uth, which used to be divisions of Munsingwear Inc. ; they were added to the underwear division. The price for the take-over is said to be some \$ 12 million.³⁷ In the same year, VF also took over the children's wear manufacturer Health-Tex.

In July 1991, it was announced that VF had bought a number of assets from Barbizon Corporation, a manufacturer of (yet again) underwear and nightwear. The purchase did not concern production facilities but 43 leased shops. The latest take-over concerns Work Wear Corporation Inc. (September 1991).³⁸

VF continues to seek expansion by taking over major consumer trademarks. Analysts have highly praised VF Corporation's take-over policy and practice. Mr Trevor Finnie of The Economist, for example, has described the policy as "exemplary" : "It has acquired known companies with excellent products, high consumer

³⁶ Moody's Industrial Manual, 1990, p. 6412. VF Corporation's Annual report for 1986 quotes a (rounded off) sum of \$ 762 million.

³⁷ Fortune Business Reports, Company Profile V.F. Corporation, 1991.

³⁸ Fortune Business Reports, Company Profile V.F. Corporation, 1991.

market penetration and recognition, significant market shares and solid financial performances."³⁹ Moreover, VF Corporation has always taken great care to dovetail the corporate cultures of the companies that it takes over into its own culture.

VF Corporation is increasingly viewing its international activities as the source of growing revenue and brandname reputation. In 1990 the company boasted a record performance. Its strategy is to continue the expansion of Lee and Wrangler, whose European popularity increased considerably in 1990. Although VF's brandnames are sold in more than 150 countries, their leading market outside the US is West Europe. In the light of economic harmonization in Europe, VF Corporation reckons it can boost its sales in the near future.⁴⁰ Moreover, VF is looking into the chances for selling its products in the East European market. And although enlarging Lee's and Wrangler's market shares remains the primary objective, VF is planning to launch the products of Bassett-Walker and Modern Globe in Europe as well. Vanity Fair's activities in Europe will probably be stimulated by means of take-overs.

By means of the development and the introduction of the Market Response System, VF is hoping to anticipate the sweeping changes that characterize demand in the apparel sector. For 1990, VF and its divisions have set the following goals : shortening the product development cycle by 40% (the cycle from the designing stage to the arrival of the product in the shops normally takes 18 months), reducing stocks by 30%, and reducing costs by 20%.

Financial data on VF Corporation (by product group)⁴¹

VF Corporation is burdened with a huge debt : \$ 670.4 million in 1990, and debt servicing of \$ 76.4 million. Yet this is not an

³⁹ Textile Outlook International, Profiles of Liz Clairborne and VF Corporation, September 1991, p. 49.

⁴⁰ However, other sources do not agree, and Lee is said not to share the expectation that the European single market will boost sales.

⁴¹ The breakdown by product group is not the same for every year. The group "jeanswear" is "western, leisure and work clothing" in 1980, "jeanswear and casual apparel" from 1981 to 1985, and "jeanswear" after 1986. The group "underwear" is "body fashions, lingerie and loungewear" from 1980 to 1983, "body fashions, daywear, sleepwear and loungewear" in 1984-85, and "intimate apparel" from 1986 on. "Ladies' wear" is "women's dresses and outerwear" in 1980, "women's dresses and sportswear" in 1981, and it ceases to exist in 1982. "Sportswear" is "knitted, fleeced activewear" in 1984-85, simply "sportswear" in 1986-87, "sportswear and activewear" from 1987 on. The group "others" existed from 1980 to 1985. "Work clothing" is "occupational apparel and other" from 1986 on. Source : VF Corporation Annual Reports 1980-1990.

unduly worrying element, since debt payments can be financed from profits.⁴²

The following survey deals with the contributions of the individual divisions to the concern as a whole, paying special attention to the jeanswear division.

The net turnover of VF Corporation by product group is given in Table 5. Unfortunately, the net profits by product group, as listed in Table 6, do not go beyond the year 1985, since no later data are available. Therefore, in order to look at the evolution over a longer and even more recent period, Table 7 lists the operating results by product group between 1980 and 1990. The group "jeanswear" is highlighted in bold print.

Table 5. Net turnover by product group (1980-1990)(in \$ 1,000)

	1980	1981	1982	1983
jeanswear	460,408	544,797	666,174	878,455
sportswear				
underwear	139,335	168,799	184,141	198,744
work clothing				
women's wear	26,601	22,714		
others	7,426	9,955	29,213	23,757
overall	633,770	746,265	879,528	1.100,956
	1984	1985	1986	1987
jeanswear	883,591	941,966	905,982	1.550,314
sportswear	48,263	248,348	309,102	492,624
underwear	196,450	204,045	261,187	269,469
work clothing			68,303	261,355
women's wear				
others	39,052	86,823		
overall	1.167,356	1.481,182	1.544,574	2.573,762
	1988	1989	1990	
jeanswear	1.469,158	1.386,084	1.437,259	
sportswear	465,833	516,644	487,556	
underwear	285,918	316,230	360,062	
work clothing	295,198	313,753	327,736	
women's wear				
others				
overall	2.516,107	2.532,711	2.612,613	

⁴² Textile Outlook International, Profiles of Liz Clairborne and VF Corporation, September 1991, p. 47.

Table 5 clearly shows that from 1980 to 1990 the sales of jeanswear have been VF's most important activity by far. Up to 1986 these jeans products involved Lee jeans alone, but from 1986-87 on they also included Wrangler, Rustler and Girbaud. In 1986, sales (i.e. of Lee jeans alone) amounted to a value of \$ 906 million. In 1987 they rose to \$ 1.6 billion, and this rise is accounted for by Wrangler, Rustler and Girbaud : hence, roughly speaking it can be said that these brands add \$ 694 million to VF's turnover.

VF Corporation's policy of diversification was a very well-considered one. Thus, the stake in the underwear industry (the original core activity of VF Corporation) was enlarged by take-overs : Modern Globe in 1985-86, Vasserette in 1990, and Barbizon in 1991. Furthermore some leading companies in the field of sportswear and work clothing were acquired.

VF's dependence on the sale of jeanswear developed as follows :

1980	72.7%
1981	73.0%
1982	75.7%
1983	79.8%
1984	75.7%
1985	61.0%
1986	58.7%
1987	60.2%
1988	58.4%
1989	54.7%
1990	55.0%

These figures clearly show that VF's strategy of diversification has turned out to be successful. Before it took over Bassett-Walker in 1984, VF depended on the sales of jeanswear for nearly 80%. After the take-over, dependence dropped to 60%, and that percentage was not changed by the acquisition of Blue Bell in 1986. In 1990 VF depended on the sales of Lee, Wrangler, Rustler and Lee jeans for 55% of its turnover.

VF Corporation's aggregate turnover has increased only a little since 1987, when it jumped to \$ 2.5 billion, thanks to the take-over of Blue Bell.

Table 6. Net profits per product group (1980-85)(in \$ 1,000)

	1980	1981	1982
jeanswear	33,792	34,231	75,392
sportswear			
underwear	11,131	15,066	15,510
work clothing			
women's wear	0,127	0,127	
others	0,837	2,781	0,721
overall	45,887	52,205	91,623

	1983	1984	1985
jeanswear	104,199	109,433	115,939
sportswear		3,212	18,540
underwear	16,999	15,182	17,201
work clothing			
women's wear			
others	-1,797	-3,081	-12,263
overall	119,401	124,746	139,417

As was pointed out above, the breakdown by product group for the years after 1985 is not available. However, we do know the consolidated net profits of VF Corporation over the second half of the decade :

1986 :	\$ 129 million
1987 :	\$ 180 million
1988 :	\$ 174 million
1989 :	\$ 176 million
1990 :	\$ 81 million

In the first six years of the eighties, it is the sales of jeanswear (= Lee) which generated the largest share in the overall profits of the concern :

1980 :	73.6%
1981 :	65.6%
1982 :	82.3%
1983 :	87.3%
1984 :	87.7%
1985 :	83.2%

If these percentages are compared with the turnover of jeanswear in Table 5 (turnover by product group), it is found that the profitability of jeanswear is higher than the average, exception made of the year 1981, when the categories of "underwear" and "others" performed very well. In 1985, for example, jeanswear accounted for 61% of VF's aggregate turnover and for as much as 85% of the concern's net profits.

At the outset of the eighties VF Corporation had a turnover worth \$ 544 million, and profits of \$ 38 million. At the close of the decade, the two figures had more than quadrupled. Moreover, the number of brandnames had grown from two (Vanity Fair and Lee) to twelve. In 1990 VF's net profits were halved, standing at \$ 81 million.

Table 7. Operating results by product group (1980-1990)(in \$ 1,000)

	1980	1981	1982	1983
jeanswear	65,606	86,508	150,783	195,044
sportswear				
underwear	21,959	29,336	29,894	33,477
work clothing				
women's wear	0,326	0,366		
others	5,716	9,451	12,007	13,407
overall	93,607	125,661	192,684	241,928
	1984	1985	1986	1987
jeanswear	207,349	232,151	190,411	261,494
sportswear	6,388	33,542	37,158	23,823
underwear	29,331	33,901	45,122	51,633
work clothing			3,515	41,329
women's wear				
others	15,183	7,050		
overall	258,251	306,644	276,206	378,279
	1988	1989	1990	
jeanswear	208,367	193,889	122,324	
sportswear	17,475	36,074	14,778	
underwear	51,905	50,251	52,411	
work clothing	52,154	56,119	43,215	
women's wear				
others				
overall	329,901	336,306	232,728	

The contribution that jeanswear makes to the overall operating result of VF Corporation developed as follows :

1980 :	70.1%
1981 :	68.6%
1982 :	78.3%
1983 :	80.6%
1984 :	80.3%
1985 :	75.7%
1986 :	68.9%
1987 :	69.1
1988 :	63.2%
1989 :	57.7%
1990 :	52.6%

The overall line in these results is clearly a decrease, with the exception of a rise in 1987 (the take-over of Blue Bell). In 1990, the result (\$ 232 million) barely equalled the result obtained in 1983.

Integration or disintegration ?

Contracting out, or manufacturing at home ?

The US textiles industry has organized a lobby to urge the government to take measures (import quotas) protecting the domestic textiles industry. The legislation that Congress passed on this issue was vetoed both by President Reagan and by President Bush, since the US government is in fact trying to promote free trade with Canada and Mexico. Moreover, the Multifibre Arrangement (MFA) is on the verge of being phased out. In other words, the textiles industry is likely to acquire an even more global character.

The American apparel industry does not agree with the textile industry on the issue of protectionism against free trade. The former are stuck between, on the one hand, the textile producers and, on the other, the retailers ; they advocate free trade, thus taking a political position inspired by the fact that they have increasingly resorted to contracting out to manufacturers abroad, so that they are afraid that obstacles might be placed in their way when they import the clothing that they have had made abroad. It is a position which is in line with that of importers and big retailers.

In a way, VF Corporation is an exception within the US clothing industry. Most VF products are intended for the home market (which accounted for 90% of turnover in 1990 !) and they are made in the US itself. It is only in the period when Lee plunged into the market of fashion jeanswear that a substantial portion of its production was contracted out abroad. Today Lee is again concentrating its production at home, at least as far as its products for the US market are concerned. Some analysts argue that this aspect of VF Corporation's strategic policy may adversely affect the evolution of the concern's profits.⁴³

Lee's claim that it concentrates its production facilities in the US itself, is not always legitimate, as was shown in 1989. Lee was indicted for selling jeans and pretending that they were manufactured at home, whereas they were not. In addition, Lee was said to have tried to sell jeans with a label carrying the seal of the United Garment Workers of America, although the jeans had been made in non-unionized plants ; the practice was discontinued at a later stage. In accordance with the Deceptive Trade Practices Act of the State of Alabama, Lee was sued for damages amounting to \$ 1.3 million. The company managed to negotiate a

⁴³ Textile Outlook International, Profiles of Liz Claiborne and VF Corporation, September 1991, p. 51.

settlement, paying a fine of \$ 25,000 and donating 1,000 jeans to youth organizations in Alabama.⁴⁴

Integration (manufacturing one's own products) is a far-reaching concept for VF Corporation. VF is a vertically integrated concern, i.e. VF controls the entire production process, going from the purchase of yarns, via weaving, dyeing, finishing and cutting the fabric, to stitching the end-product. The one exception to the rule is the manufacture of jeanswear : VF buys the denim fabric from suppliers, and then cuts and stitches the jeans.

Since the concern manufactures the bulk of its production itself, it employs a large number of workers : more than 40,000 in 1990.

When VF took over Blue Bell in 1986, it released data on the major production facilities of each of its daughter companies (see Table 8).⁴⁵

Table 8. VF Corporation's major production facilities by daughter company (owned or leased, size)

<u>Company</u>	<u>Number of facilities</u>		<u>Size</u> (in foot ²) ⁴⁶
	<u>owned</u>	<u>leased</u>	
Lee	10	23	3,357,000
Wrangler	32	16	4,066,000
Bassett-Walker	16	1	2,850,000
Jantzen	6	3	1,490,000
Vanity Fair	5	8	1,396,000
Red Kap	19	3	1,267,000
overall	88	54	14,426,000

In 1980, VF Corporation had 34 plants in the US and 19 abroad (Canada, Belgium, the United Kingdom, Ireland and Hong Kong). In addition, it had entered upon joint ventures and participations in Australia, Brazil, Finland, Japan, South Arica and Spain.⁴⁷

Today the concern owns some 85 production facilities and it leases some 50. In 27 plants in 15 states of the US it sells its own brands at half the price.⁴⁸

⁴⁴ Daily News Record, December 29, 1989.

⁴⁵ Form 10-K discussing the financial year up to January 3, 1987, p. 6.

⁴⁶ 1 foot = 12 inch (1 inch = 2.54 cm) = 30.48 cm = 0.31 m.

⁴⁷ Elson & Pearson, Women's Employment and MNC's in Europe, 1989.

⁴⁸ Textile Outlook International, Profiles of Liz Claiborne and VF Corporation, September 1991, p. 47.

Lee's International Division, however, is faced with sales which have decreased by 13%. Its value turnover stands at \$ 127 million. The drop is attributed to the recession which is plaguing Europe as well as Canada.

In 1981 Lee has five production and distribution facilities in Northern Ireland, four of which are leased. The two facilities at Sint-Niklaas (Belgium) as well are on lease. There is one plant in Ireland and two in Canada. The facility in the Philippines is a leased one. In the US all but three of Lee's production facilities are on lease.⁵⁰

Apart from its own production facilities in Europe, Canada and Asia, the International Division has joint ventures in Australia, Brazil, Hong Kong, South Africa and Spain. Furthermore, it has licensing agreements in 11 countries where it does not have plants of its own or joint ventures.

In this year Lee is also launching a television advertising campaign in order to further improve its brand image.

- In 1982, in spite of the lacklustre performance of the jeanswear market, Lee has an outstanding year, with a turnover of \$ 666.2 million and profits of \$ 75.4 million. VF Corporation attributes this success to its marketing programme, which is said to have succeeded in making the retailers as well as the consumers aware of the quality of the products offered.

The number of people employed has risen to 13,300, i.e. 65% of VF Corporation's overall staff ; of these, 10,800 (81%, men as well as women) work in the US and 2,500 abroad.⁵¹

The International Division restores its profitability, thanks to an improved performance in the United Kingdom and in Belgium and thanks to growth of the activities in Asia.

Outside the US Lee has three facilities in Northern Ireland (as compared with five in 1981), two in Belgium, two in Canada, one in Ireland and one in the Philippines.

Computer-controlled Gerber machines are used for cutting fabric. The production capacity has been enlarged with five new plants in the US, one of which is to be used as a distribution centre as well.

Various innovations have taken place in the product range. For example : Dress Blues denim, which retains its dark blue colour even after many washes, and Ultracord, a cotton-polyester corduroy, which has a better fit and looks neater. Lee feels that the young consumer wants new kinds of jeans such as stone-washed

⁵⁰ Form 10-K for the financial year up to January 2, 1982.

⁵¹ Vanity Fair has 6,200 workers in the US. Source : Form 10-K for the financial year up to January 1, 1983.

jeans, black jeans and redyed denims.

- 1983 is another record-setting year. Lee's aggregate turnover grows by 32% to \$ 878.5 million, and profits increase by 38% to \$ 104.2 million. Lee realizes 89% of its turnover in the US. All product groups perform well, but the group of jeanswear for young people outperforms the others. To keep abreast with demand plants are taken over in Pulaski, Virginia, and in El Paso, Texas. Moreover, the former Kay Windsor plant in Savannah, Tennessee, is converted into a Lee plant.

Lee now employs 17,300 people, 70% of VF's overall number of staff. The overwhelming majority (86%) work in the US : 14,800, against 2,500 abroad.⁵²

Lee's turnover outside the US now amounts to nearly \$ 93 million. The International Division has further improved its profitability, and it has restructured its marketing organization in Scandinavia. Also, in some countries joint ventures have replaced distribution activities, as this allows Lee to have greater control over the marketing of its products. There are joint ventures in Australia, Brazil, South Africa, Japan, Finland and Spain.

One facility in Northern Ireland has been disposed of, so that only two remain. In Hong Kong, by contrast, there is one facility more. Elsewhere there are no changes : two facilities in Belgium and in Canada, and one in Ireland and in the Philippines.⁵³

Lee has launched an advertising campaign in the printed media and on television, using as a slogan "The brand that fits". This theme is backed up by the introduction of clothing articles in all sizes.

- Lee's success in its home market continues uninterrupted in 1984, in spite of a slack and fierce competition in the jeans market. Sales in the US and abroad rise to \$ 883,591,000, 92% of which are realized in the US.

In early 1984 Lee begins to build a distribution centre in Holly Pond, Alabama. Some other plants are enlarged.

In 1984 Lee employs 15,000 people, VF's overall staff numbering 31,800. In the US it has 12,700 employees, and 2,300 abroad.⁵⁴

⁵² Vanity Fair has 6,600 workers in the US. Source : Form 10-K for the financial year up to December 31, 1983.

⁵³ As shown when comparing the Form 10-K issues of 1982 and 1983.

⁵⁴ Vanity Fair and Bassett-Walker employ 6,100 and 7,200 people, respectively, in the US. Source : Form 10-K for the financial year up to December 29, 1984.

VF International is slumping : sales as well as profits are dropping. The turnover falls from nearly \$ 93 million in 1983, to \$ 74 million in 1984. This disappointing evolution is largely attributed to adverse economic conditions and difficult markets in Europe, Canada and Asia.

- In 1985 Lee's aggregate turnover rises to \$ 941,966,000, of which 91% is realized in the US market. The turnover of the International Division picks up, rising to \$ 82 million, but that is still \$ 10 million below the 1983 results. In Europe, Lee sells particularly well in Britain. Production and sales of Lee products in Canada are discontinued, and a licensing agreement is signed with a local manufacturer to design, produce and distribute Lee products in Canada.

Lee now has 26 production and distribution facilities in the US. In addition, there are two plants in Northern Ireland and in Belgium, and there is one plant in Ireland, the Philippines, Hong Kong and Costa Rica.

In 1985 Lee employs 15,600 workers, compared with the number of 32,600 for VF Corporation as a whole. The US operations account for 13,500, and the European, Asian and Central American plants for 2,100.⁵⁵ This is also the last year in which VF publishes data of this kind ; Table 9 gives a survey of the evolution of the number of jobs at Lee between 1980 and 1985.

Table 9. Evolution of the number of jobs at Lee (US and abroad). 1980-1985.

	<u>Overall</u>	<u>US</u>	<u>Abroad</u>	<u>%</u>
1980	12,100	8,500	3,600	30
1981	12,100	9,200	2,900	24
1982	13,300	10,800	2,500	19
1983	17,300	14,800	2,500	15
1984	15,000	12,700	2,300	15
1985	15,600	13,500	2,100	14

In 1985 Lee begins to focus on modern designs and colours. It introduces Super Soft denim. Furthermore a marketing programme is launched which aims at "big and tall" in the men's market segment, and the production lines for children's wear are extended.

- In 1986 the sale of Lee products drops by 16% (in units) when compared with the year before. This drop can only partly be offset by raising the unit price. VF Corporation's 1986 annual report is the first to be extremely critical of Lee : it claims

⁵⁵ Vanity Fair has 5,300 people in the US, and Bassett-Walker 7,700. Source : Form 10-K for the financial year up to January 4, 1986.

that Lee has been slow in spotting changes in the demand for jeans, for example with regard to style and colour, particularly in the women's market segment. On account of this "error", it is decided to adapt Lee's basic products and the relevant production lines and marketing strategies. What this decision boils down to, is that the most fashion-sensitive clothing markets are avoided (i.e. those which make the industry so uncertain). Lee is expected to be able to adapt rapidly to the latest fashion once the actual trend is perceived. For the first time, VF Corporation formulates a mission : "It is our mission to be the market leader in satisfying consumer and retailer needs for basic apparel products and services which offer superior value." VF is confident that Lee will be able to raise its turnover and profits as early as the following year, 1987.

Helped by the fall in the price of the dollar, VF International performs considerably better, both with regard to turnover and to profits. More units are sold at higher prices. In January 1986, it is decided to disinvest in the joint venture in South Africa.

In 1986, the division Modern Globe uses its brand Lollipop to introduce briefs under the brandname Lee. The articles that Troutman used to make under the brandnames Skeets and Lee are transferred to Lee.

The year 1986 is clearly characterized by the take-over of the former competitor Blue Bell and its brandname Wrangler. Wrangler had a number of facilities in Europe (a sales office in Britain), Canada (a sales office) and the Far East. The take-over obviously makes it easier to acquire specific materials and products from Asia. And Lee's marketing activities in Asia, and the control over Lee's plants in Hong Kong and in the Philippines, are straightaway merged with Blue Bell's activities in Hong Kong.

VF finds that the apparel industry has grown very uncertain in the last ten years, and it believes the cause to be the growing competition from foreign imports. Indeed, many US apparel manufacturers now have their products manufactured abroad. VF too has such foreign facilities, but it does make and sell some 95% of its products in the US.

- In 1987 Lee is indeed performing better, both with respect to turnover and to profits. Its sales have dropped by 2% (in units), but this is compensated for by small price rises and by changes in Lee's product range. Stocks are increasing.

Lee has begun to carry out (more) market research in order to identify specific categories of consumers and to anticipate their likes and dislikes. This policy makes it possible to design and manufacture the right products in good time. Thus Lee introduces better, heavier clothing ; and substantial investments are made in stonewashed and frosted jeanswear by building two central washing plants and by expanding the existing washing facilities. In addition, the practice is taken up of providing the jeans articles with barcoding cards, so that the consumers' buying

patterns and the production planning can be monitored more easily.

Lee also expands its production capacity in the US by taking over facilities from the former Troutman division in North Carolina, which means that nearly 200 workers can keep their jobs. Moreover, Lee has a greater portion of its production (mainly of young people's apparel) made in Costa Rica and Mexico. By contrast, VF Corporation closes down eight Wrangler plants in North Carolina and Arizona, causing the loss of 1,200 jobs.

Like in previous years, Lee has no difficulty in being supplied with denim fabrics. The company's three major denim suppliers provide 42%, 20% and 9%, respectively, of Lee's requirements.

The advertising campaign waged in 1987 is designed to build up a more dynamic and more youthful image. In this way Lee's position as leader in the women's jeanswear market is strengthened.

- However, in 1988 things go wrong again. The jeans market is contracting, and the profits made on VF jeanswear falls by 5%. The overall sales of jeanswear (in units) are slashed by as much as 12%, but this substantial drop is at least partly made good by higher unit prices, which are caused by, among other things, the use of more expensive fabrics.

Lee is hit hardest by this evolution. Again, the company proves to find it difficult to react rapidly to the changing needs of retailers and consumers. Five Lee plants are closed down and so will two distribution centres ; in all, 14 VF plants are closed down in 1988. Lee's organizational structure is changed. In the US, Lee's commitment to the Market Response System (which is in the initial stages of its introduction) becomes even greater, as the system is considered to be a means of developing products which will more readily live up to the expectations of consumers and retailers. VF is confident that Lee will restore its growth in 1989.

VF International too is finding 1988 a difficult year. Since Lee is plagued with overcapacity in its European operations, one Belgian plant is closed down. A joint venture in Brazil is sold and replaced with a licensing agreement.

The EDI system (electronic data interchange) set up with the retailers, of which the bar code cards going with the articles constituted one component, is developed further. EDI is expected to enable the company to react more rapidly to changing fashion trends ; in addition, it will make it possible to rely on smaller stocks, both with VF and with the retailers.

A new advertising campaign, focusing on the life style of young adults, is to boost Lee's sales.

- In 1989 Lee celebrates its centenary. Yet this is no occasion for jubilation, as (contrary to expectations) both turnover and

profits show a considerable dip for the second consecutive year. Profits fall by 35% against the year before, and this time Lee's market share is affected (by 2%).

The loss is only partly made good by VF's other jeanswear companies : overall turnover of jeanswear falls by 6% as compared with 1988. VF's turnover in units drops by 5% against 1988 and by 16% against 1987. For Lee products alone, turnover (in units) has fallen by 23% against 1987. The problems that Lee is facing are not solely due to the declining demand for jeanswear : in early 1989 the market was picking up modestly, but Lee proved to be unable to meet the rising demand since it had closed down some of its production facilities in 1988. As Mr Michael McEntire of Lee puts it : "At the end of 1988 we took a number of decisions on the basis of forecasts for 1989, and all those decisions turned out to be wrong."⁵⁶

In September 1989 Lee's present chief executive, Mr Frederick J. Rowan II, takes charge. VF invests in a new distribution centre for Lee products. Moreover, the wet processing capacity of all jeanswear operations is enlarged.

VF International is doing somewhat better. Both Lee and Wrangler manage to maintain their positions in a slightly sagging British market. The two brandnames are doing equally well in other European countries. About 12% of the jeanswear turnover, i.e. \$ 166 million, is realized outside the US, mainly in Europe.

- The year 1990 proves to be a difficult one for the American apparel and textiles industry : after eight years of virtually uninterrupted growth, a recession is setting in. Lee too continues to be faced with problems. Estimates are that Lee's yearly turnover has dropped from over \$ 1 billion to some \$ 800 million, but neither VF nor Lee are willing to provide any precise data.⁵⁷

VF Corporation's view is that, though Lee has diagnosed the causes of its decline in time, it did not appreciate the full scale of the problems. In the middle of the year, Lee as well as Jantzen are thoroughly re-organized.

Lee's managerial structure is reviewed. In 1990, 2,500 of Lee's 9,500 jobs are scrapped. The re-organization also affects six plants and a washing facility, which are closed down ; and it leads to the dismissal of 45 people at the US headquarters, and the trimming down of the US sales staff by 40 jobs.⁵⁸ Among the plants closed down there is one in Mexico with 250 employees. Lee resorts less readily to contracting out. Stocks are reduced. The

⁵⁶ Children's Business, June 1990.

⁵⁷ Daily News Record, June 11, 1990.

⁵⁸ Kansas City Star, October 30 and 31, 1990, and May 15, 1991.

overall costs of re-organization amount to \$ 4.1 million.⁵⁹ At the end of 1990 Lee is in the black again.

Lee intensifies its policy of repositioning its products, and recognizes the importance of strengthening its ties with the retailers. The product range is simplified once more, putting even greater emphasis on basic jeanswear, notably the basic jeans with five pockets, and fewer styles in various finishings. A great effort is made in Lee's core market (jeanswear for women between the ages of 25 and 44). Finally, Lee introduces the lightweight jeans.

Lee continues to develop tight co-operation schemes with the retail trade, looking into, for example, stock management and the presentation of Lee products in the shops. Wrangler and Rustler have preceded Lee on this road : they have implemented a re-order system with seven large retailers, which enables them to replenish stocks within four days. In 1990, Girbaud manages to reduce its product development cycle by half. Moreover, Girbaud is now introducing new products to the market six times a year, instead of the usual three times. Bassett-Walker is marketing T-shirts under the Lee brandname, both for consumers and for large-scale consumption.

VF International is doing well in 1990, particularly in West Europe, and it is the Wrangler and Lee products which take the lion's share of the success. About 17%, i.e. \$ 244 million, of VF's aggregate turnover is accounted for by the international daughter companies. If Lee's turnover in Europe is extrapolated from this data, it can be estimated to stand at roughly \$ 100 million.⁶⁰

- In 1991, finally, the American economy is slowly recovering.⁶¹ At the end of 1990, Lee's chief executive Mr. Rowan thought that the 1991 jeanswear market would at most manage to match the 1990 performance. In November 1990 hardly any orders for the spring of 1991 had been placed. Such a development spells trouble especially for those manufacturers who contract out some or all of their production. This is a problem that Lee is not faced with, since it has gone over to making its own products.⁶²

⁵⁹ Form 10-Q, first quarter up to March 30, 1991.

⁶⁰ Estimates are that 15% of international jeanswear sales is realized in Europe. The products sold are exclusively Lee and Wrangler. By volume, Wrangler sells 1% more in the European market than Lee. By value, Lee is thought to account for 7% and Wrangler for 8%.

⁶¹ Growth is estimated at 3%, which is significantly below the 6% which can normally be expected after a recession. Source : Textile Outlook International, September 1991, p. 45.

⁶² Women's Wear Daily, December 12, 1990 ; Daily News Record, June 11, 1990.

According to VF's chief executive Mr Pugh, Lee is already regaining the ground it has lost over previous years. It has managed to reduce costs by 25%, to lower prices for the retailer, to improve relations with the retail trade, and to boost productivity. Turnover is said to have increased by 6% in the first quarter. Mr Pugh explains Lee's problems in the following terms : "We had internal management problems and took our eyes off improving the business and stopped listening to the customer and the retailer."⁶³ Lee's Mr Rowan is firmly convinced that results over the second half of 1991 will be better than those in the second half of 1990.⁶⁴

Although Wrangler, Girbaud and VF International succeeded in improving their turnover in the first quarter of 1991, Lee's turnover is no better than in the corresponding quarter of 1990. Lee did manage to improve its operating results, and so did VF International and Girbaud. The gross profit margin goes from 30.8% to 31.6% of turnover, and this improvement is mainly attributable to Lee. Lee made a profit of \$ 1.6 million on the sale of a 50% stake in its joint venture in Australia.

In the second quarter of 1991 Lee's turnover increased by volume, but it dropped by value due to wholesale trade discounts and to lowered sales of stock surpluses. The operating results were on the mend for all jeanswear companies of VF Corporation, including Lee.

The third quarter showed a record turnover for VF as a whole. Lee's export of normally priced articles rose by 20% compared with the third quarter of 1990.

In August 1991 word got out that Lee is going to build a large modern plant in Winston-Salem, North Carolina. The building is to be finished in June 1992. It will have computer-controlled washing machines and driers. The clothing articles will be washed and finished, and will subsequently be given the label with the brandname. This implies that eventually small washing facilities in the various plants will disappear, which will leave room for stitching. Overall, the product cycle will thus be shortened by about one week. The new plant will employ more than 500 people. The location at Winston-Salem was chosen for its proximity to Lee's new distribution centre in Mocksville, NC.

In Europe Lee is introducing MRS (Market Response System), the production and distribution system developed by VF Corporation. The system's designer, Lynn Hazlett, is enthusiastic : it used to take 60 days to replenish the stock at the retailer's, and it was difficult to follow fashion changes closely. At the beginning of the season, VF had to decide what it was going to produce proceeding on its own appreciation of fashion trends. "The new method enables us to decide on today's production on the basis

⁶³ Kansas City Star, May 15, 1991.

⁶⁴ Daily News Record, June 11, 1990.

of last week's expectations." All the articles that get sold, will in principle be replaced immediately. Delivery times will be reduced from 60 to 7 days. The "in stock" percentage at the retailer's rises from 60% to 90%. This also implies that the retailer no longer has unsold articles left at the end of the season, articles which used to be disposed of as bargains at low prices. Bargain sales can now be resorted to as a marketing instrument rather than as an emergency solution.⁶⁵

Another piece of news in 1991 is that Lee's European headquarters will be transferred from Sint-Niklaas to Brussels. Wrangler will continue to be run from London, but the organizational structure will require Wrangler, like Lee, to report to Brussels. The first assignment of the new main office, which will employ a small number of people, will be to look for growth opportunities in take-overs and in the introduction of other VF brands in Europe. Mr Buzz Ahrens, who used to head Lee Europe, is to become divisional manager of VF Europe in July.⁶⁶

⁶⁵ Het Nieuwsblad, June 14, 1991.

⁶⁶ Het Nieuwsblad, June 14, 1991.

4. LEE IN EUROPE

The production facilities provide jobs for some 700 people in Ieper, Belgium, and 600 in Northern Ireland and the Republic of Ireland (3 production facilities in all), and 200 up to 300 in Malta.

Some of the production is contracted out, both within Europe and outside Europe, and apparently the articles which are contracted out concern tops rather than trousers. No purchases are made in the US, partly because the product range does not overlap.

The jeans fabrics for the European market are supplied by weaving mills in Germany, Italy, Turkey and Ireland.

Lee's distribution centre in Belgium supplies the European market ; the centre in Northern Ireland supplies the British and Irish markets. The Netherlands, Germany, France, Ireland, Spain, Portugal, Norway, Finland and Denmark have trading companies.

The Spanish and Portuguese branches are joint ventures ; those in other countries are fully owned by Lee Europe NV in Belgium. One source claims that Lee Europe also has joint ventures in Italy and Turkey, but this information has not been corroborated.⁶⁷

In each country the Lee branch is headed by a manager, called the "country manager", except for the joint venture in Spain. The country managers regularly meet in Belgium.

The following survey looks at the different production facilities first, and at the trading companies second.

Belgium

The Belgian readywear industry employed 36,900 people in 1990. The trend is clearly for the number of large companies to decrease, and that of small companies to increase. Generally speaking, the industry is very much dependent on exports.

After a period of lacklustre performance, the readywear industry appears to be working at a stable level again. This is to be attributed to the so-called "national plan for the textiles and clothing industry", which until 1984 provided for direct financial assistance to companies. Until 1985, laid-off workers could receive financial and social help. From 1984 to 1987 the plan also provided for special interest subsidies. And, finally,

⁶⁷ Interview of Marijke Smit and Ineke Zeldenrust with Mr D. Jacobfeuerborn, country manager of Lee Nederland BV, November 5, 1991.

until the middle of 1991 much attention was paid to the setting up and backing up of "services to new initiatives". These new initiatives mainly involved the new technologies. All this resulted in increased exports and higher investments, but also in fewer employment opportunities and in profits which are lower than anticipated.⁶⁸

Lee's production facility is sited at Ieper, its main office (at the same time the European distribution centre) at Sint-Niklaas.⁶⁹

Lee's Belgian plant is some 25 years old. Mr Jacobfeuerborn, Lee's country manager in the Netherlands, says the plant has highly-qualified female workers. Labour turnover is low.

The plant is a modern and flexible one, applying several production systems. One of these, for example, is a conventional system : of the 50 steps required to assemble a pair of jeans, a stitch-worker will carry out not more than one or two steps all day long ; and another is a modern system, in which she carries out several operations. In the latter system the jeans move from one worker to another, hanging on a transport-line. The proportion of conventional/modern in the Belgian plant is something like 60-40.

In 1987-88 Lee Europe was radically restructured, and the number of people employed in Belgium dropped from more than 1,000 to some 800. The underlying reason for the restructuring operation was said to be the slump in the European jeanswear market and the hefty increase in imports from the low-wage countries.⁷⁰

United Kingdom, including Northern Ireland

Lee has two production facilities in Northern Ireland, viz. in County Down and in Derry. Production proper takes place in Derry, the plant in County Down doing the finishing and the washing and ironing. In County Down there is also a storage and distribution centre and a sales office. In addition, there is a small sales office in London. Each week some 40,000 units are stonewashed, which requires 20 tons of pumice per week. The pumice is imported from Turkey, being purchased via Baysallar in Munich, Germany.⁷¹

⁶⁸ Textile Outlook International, Profile of the Belgian Textile and Clothing Industry, March 1991, p. 42.

⁶⁹ Number of people employed on December 31, 1988 : 800. Sales : BEF 2,319,463,000. Share capital : BEF 117,500,000. In that year Lee suffered a loss of BEF 166,502,000 ; the cash flow stood at BEF 126,131,000.

⁷⁰ Texpress, 32nd year, no. 6, February 13, 1988.

⁷¹ Industrial Minerals, Pumice markets. Volcanic rise of stone-washing, May 1990.

The Derry plant employs some 250 people, the County Down facilities some 200. Lee UK says it employs more than 600 people, and that figure includes the 140 workers in the facility in the Irish Republic.

The production of Lee UK is mainly sold in the British and Irish markets.

Lee UK was founded in 1948 as Berkshire Hosiery ; in the seventies the company was acquired by VF Corporation as an element of the Berkshire Group, and its name was changed into VF Corporation (UK) Ltd. The name was changed again in 1984, when the company became Lee Apparel (UK) Ltd. It solely manufactures Lee products. According to Lee UK itself, the turnover (including that of the facility in the Republic of Ireland) stands at £ 24 million.⁷²

The two production facilities are working at full capacity. Derry is carrying out two experiments with modern technologies, so-called "quick working systems", which is the same concept that is applied in Ieper, Belgium. Trade unions do not object in principle, as long as wage levels are not affected.

In the two facilities the degree of unionization of the workers is 100%, as far as production workers are concerned, but people working in the sales office of County Down are members of the MSF Union.

Industrial relations are good, generally speaking, and wages are among the highest in the British clothing industry. The attitude adopted by management is described as "co-operative", and there are no problems with amenities, training of union people, etc. One of the objectives of the trade-union is to create more jobs for young men, and Lee has actively participated in this policy by introducing its new systems in Derry.

Lee UK has always tried to avail itself of the chances for receiving public subsidies, particularly in the Derry area, which is plagued with a high jobless rate. The public authorities have co-financed the construction of the factory, for example, and they invest in new machinery, often for as much as 30-35%. As long as all this remains as it is, Derry is an attractive location. No expansion is anticipated.⁷³

⁷² Capital issued : £ 7,000,000. In January 1988 sales stood £ 23,254,091 ; exports at £ 2,103,010. the managers are J.G. Johnson (US), president, M. de Bats (Belgium) and W.S. Walker (UK). Source : Key British Enterprises 1990. Vol. 3, L-R, Section 2031, Dun & Bradstreet.

⁷³ Letter from the Company Secretary of Lee UK, and interview with Martin Donegan of ATGWUU, Belfast.

The Irish Republic

The Irish clothing industry provided 11,500 jobs in 1988, i.e. 6% of overall industrial employment. It accounted for 1.9% of the country's aggregate industrial production, and for 1.8% of exported goods ; 67% of its exports go to Britain. The production of jeanswear represents 10% of the clothing manufacture. Both in the clothing and in the textiles industry, the government is generous with its support, in the shape of subsidies or participations. From 1980 to 1988, the number of jobs in the clothing industry fell by 26%, 4,100 jobs being lost.

In Lee's plant in County Louth, some 140 people are employed.

Malta

According to information given by Mr Jacobfeuerborn, the country manager of Lee Nederland, the production facility in Malta still applies the conventional production system, in which a stitch-worker performs not more than one or two sub-operations.

The plant employs some 200 people, and it has existed since 1963. Information from 1985 says that there used to be a Blue Bell facility in Malta, and the Lee plant may be the former Blue Bell plant.⁷⁴ The name of the plant is VF Malta Ltd.

The Netherlands

Since May 1990 Lee Nederland has been headed by country manager Dieter Jacobfeuerborn, a born German. He has been with Lee for six years, initially in the business development department for East Europe. In the Trade Registry of the Chamber of Commerce, however, John Frederick Harold White is listed as the general manager as of April 23, 1991.⁷⁵ Mr Feuerborn says that the registration of Mr White as general manager merely means that he holds the power to sign documents for the company, and that he himself remains in charge of management.

Lee Nederland's activities are solely to sell and market Lee products to Dutch retailers. The products include jeans trousers,

⁷⁴ Marketing in Europe, Jeans and Leisure Trousers in France, no. 276, November 1985, p. 24.

⁷⁵ The change was notified on October 1, 1991, by Jhr. mr. BWJM de Roy van Zuidewijn. The Trade Registry of the Amsterdam Chamber of Commerce, where Lee Nederland BV is registered under the file-number 171361, shows that the first managers were John Norman Usher (UK) and John Gardner Johnson (US), as of September, 1983. Usher was succeeded by Marcel de Bats (Belgium) on February 1, 1984. De Bats was succeeded by Michel Albert Jozef Verhelst (Belgium) on January 1, 1989. Finally, Verhelst was followed by John Frederick Harold White (UK).

jackets and T-shirts, for women, men and children. In principle all these articles are imported : when Lee Nederland has raked in an order, it is passed on to the distribution centre in Sint-Niklaas, Belgium. In general, articles are supplied to the retailers from stock, which implies that delivery is made within 48 hours.

In 1985 Lee Nederland had between 5 and 10 workers.⁷⁶ Today, in 1991, the company has 10 employees, all of them on a full-time basis, six men and four women. They see to sales, marketing and clerical work. They all cover well-defined distribution channels for jeanswear, each employee having a functional and a regional package : "functional" means that the work is subdivided according to distribution channels with a given rate of turnover. Lee Nederland advises retailers on the presentation of the Lee articles in their shops (point-of-sales, shop-in-the-shop). To this end Lee Nederland organizes training sessions for the retailer's staff in order to highlight Lee products.

In principle Lee's showrooms are aimed at all selling points of jeanswear, exception made of those retailers who carry their own brandnames and those who focus on the lower end of the range. One example : Lee Nederland does not supply jeanswear to Zeeman, Hema and C&A. With regard to business development, Lee Nederland enjoys a fairly great autonomy and can decide freely how it will approach the Netherlands market. The major advertising campaigns are designed from the centre, of course, but for each separate country a mix is made.

Mr Jacobfeuerborn puts Lee's share of the Netherlands jeanswear market at 5%. That percentage happens to be the market share put forward by Lee Europe as the objective for each country. Lee's market share in the area of women's jeanswear is put at 10 to 12%. Mr Jacobfeuerborn is not willing to discuss the number of units sold. He considers the jeanswear market in the Netherlands to be fairly stable, but he does believe there are growth opportunities here for Lee.⁷⁷

Adopting the policy pursued by VF Corporation, Lee Nederland has as its primary objective to keep stocks as low as possible, both at the retailers and at Lee's. Profits too are dependent on stock control, and a prime requisite is flexible supply. Therefore, in view of this flexibility, the production capacity of the Belgian plant has been enlarged more than what would, financially speaking, have been ideal.

Mr Jacobfeuerborn feels that the single European market will not have great consequences for Lee Europe, which has, after all,

⁷⁶ According to the Trade Registry of the Amsterdam Chamber of Commerce (January 28, 1985). These employees (between 5 and up to 9) work 15 hours per week or more.

⁷⁷ Interview of Marijke Smit and Ineke Zeldenrust with Mr D. Jacobfeuerborn, November 5, 1991.

been active at the European level for some twenty years. He does not expect any shifts in Lee's production of the European market. Neither will, in his opinion, Lee's trading companies (like Lee Nederland BV) be greatly affected by Europe 1992. Still, some two years ago, a task force was set up to discuss aspects of the single European market. It is believed that the only (fairly small) effects will be changes in customs tariffs, savings on the border formalities, and the like. And transport too will not be made easier than it is now : even today the transport of jeanswear from the Belgian production plant to the Netherlands does not pose any problem.

Neither will the potential that is offered by East Europe change a great deal, in Mr Jacobfeuerborn's opinion. It is true, though, that East Europe used to be an export market until some three or four years ago, whereas today it has become a market for joint ventures.

Lee Nederland's manager believes that VF Corporation's new policy for marketing more products and brands in Europe will not affect Lee. A number of production facilities will be taken over or set up. The new activities will not come under the charge of Lee Europe, since a separate organizational structure will be designed.

Lee Nederland has no contacts with a Dutch trade-union, nor with a services union, nor with an industrial union. There is no collective labour agreement for its staff. To Mr Jacobfeuerborn's knowledge, Lee Nederland is not a member of any employers' organization.

Scandinavia

In Finland the import of clothing articles has risen substantially over the last few years. The reason is that Finnish products have rapidly become dearer because of rising labour and/or production costs, and that the consumer attaches less importance to buying specifically Finnish products. In general it is expected that the nineties will show a decline in the consumption and production of readywear articles.⁷⁸

Lee Finland has existed since 1984 ; it is fully owned by Lee Europe NV. It employs 6 people and its activity exclusively consists in the trade in Lee products. All the articles are imported from Belgium and their sole market is Finland. Turnover stands at 10 million Finnish marks ; the volume amounts to some 8,000 units.

The company is doing fairly well ("We're doing OK"), but for the time being no further growth is expected because of the preca-

⁷⁸ Textile Outlook International, Textiles and Clothing in Scandinavia, July 1991, p. 86.

rious economic situation in the country, which has an unemployment rate of 10%.⁷⁹

Denmark expects a modest rise in consumption over the next few years, and a corresponding improvement in trade. Hardly anything else is known about Lee in Denmark.

Lee Norway (Norge) was set up in 1984. Its share capital amounts to 50,000 Norwegian crowns, its turnover to 20 million. The Norwegian company employs 6 people.⁸⁰

Other European countries

In France the evolution of the jeanswear market was as follows : growth until 1982, declining sales until 1985, a stable market in 1986, and slightly increasing sales in 1987 and 1988.⁸¹ The recovery is fully attributable to the relaunching of denim, more particularly the stonewashed kind. The import of trousers and jeans is said to be rising. Consumption in the readywear market as a whole is fairly stable and likely to remain so or to fall back slightly in the future.⁸²

In 1985 Lee ranked tenth, the number one place going to Levi's, and Lee Cooper France following on Levi's heels.

The trading company Lee France has existed since 1986 and it employs some 20 to 25 people.

In recent years Portugal has seen an increase in foreign investments made by large readywear manufacturers in long-established family-owned enterprises. Furthermore the import of clothing has increased and exports have declined.⁸³ A different company from Lee Europe holds a 5 to 50% stake in Lee Portugal ; Lee Portugal is represented by Lee Spain.

The Spanish clothing market is characterized by increases in consumption as well as in prices. Imports of clothing are relatively low, 19% in 1988, and exports are rising, particularly to EEC countries.

⁷⁹ Telephone conversations with the Finnish trade registry and with Lee Finland.

⁸⁰ Kompass Norge 1990, Firma-informasjoner, p. 741.

⁸¹ Marketing in Europe, 1988.

⁸² Textile Outlook International, Profile of the French Clothing Industry, March 1990, p. 62.

⁸³ Textile Outlook International, The Portuguese Textile and Clothing Industry, May 1991, p. 44.

Lee has only a sales office in Spain, whereas other clothing manufacturers also have production facilities in Spain, for example Levi, Benetton and Lois.⁸⁴

Just like in Portugal, a different company from Lee Europe holds a stake in Lee Spain of 5 to 50%. As was said above, Lee Spain represents Lee Portugal. The share capital amounts to 35,000,000 pesetas.⁸⁵

Germany expects a modest increase in real consumer spending, but competition is fierce, particularly from products imported from the East. Branded apparel, which is relatively expensive, will have to watch the changing fashion trends very closely.⁸⁶

Lee's sales office in Germany is based in Cologne.

⁸⁴ Textile Outlook International, Textiles and Clothing in Spain : Facing the EEC Challenge, September 1990, p. 10.

⁸⁵ Guia Comercia y de la Industria en Madrid 1990, Textil 6, p. 74.

⁸⁶ Textile Outlook International, A Profile of the West German Textile and Clothing Industry, March 1989, p. 77.

5. CONCLUSION

Lee mainly produces jeans under its own brandname. It is the oldest and largest company in the US based VF Corporation, which acquired Lee's former competitor Wrangler in 1986.

The US market has traditionally been the foremost key market for jeans in general, and for Lee products in particular.

In the first half of the eighties Lee was doing quite well. But the turnaround came in 1986 : the volume of Lee products sold began to decline. The parent company criticized Lee for reacting to market trends inadequately and late. The next few years (exception made of 1987, which was a good year) have been marked by successive re-organizations, which have resulted in the loss of a large number of jobs. In 1983 Lee employed 17,300 men and women, of whom 14,800 in the US ; over the next few years the work-force was trimmed down, and in 1990 another 2,500 jobs were lost, so that only 7,000 jobs remain.

In the past ten years, the jeanswear market has gone through a difficult period, in the US as well. From time to time fashion trends have taken new directions, sometimes to the cost of jeanswear, and nowadays fashion changes rapidly anyway. For quite some time Lee was not keeping abreast of events. To be sure, Lee did introduce many different jeans (different as to models, colours and finishing), but failed to be really successful. That is why Lee is partly returning to the basic jeans model. Also, Lee is trying to strengthen its ties with the retail trade, to cut its costs, to reduce stocks, and to be more flexible in its production and delivery schemes. Lee is implementing the Market Response System developed by the parent company, which is to enable it to replenish the retailer's stock much more rapidly when an article is sold out.

Lee's target consumer group in the US consists of women between the ages of 25 and 45, since it is they who are believed to buy jeans for their families. Lee is trying to reposition its products by means of costly advertising campaigns.

Lee has always ranked second in the overall jeanswear market, initially with a 13% market share, later with 11% (by value), following the number one, Levi Strauss, who initially had 21% and today 19%. Levi focuses on the market for men and boys, and spends even more money on advertising campaigns.

Since Lee has decided to concentrate less on extremely fashion-sensitive market segments, its need to have some of its production made abroad (particularly in Costa Rica and Mexico) has become less great. In keeping with the policy adopted by VF Corporation, Lee is again producing the bulk of its articles at home and has closed down a plant in Mexico. The washing and finishing operations are being centralized as much as possible.

In 1989, though, it was shown that Lee's claim that its products are made in unionized factories in the US is not always legitimate.

For VF Corporation as a whole, it is of paramount importance that Lee should perform well. In 1983 VF depended for nearly 80% of its turnover on the sales of jeanswear, which at that time came almost exclusively from Lee. Thanks to a well-considered policy of diversification, VF managed to reduce that dependence to 55% by 1990 ; moreover, VF now has four major brands of jeans : Lee, Wrangler, Rustler and Girbaud. Still, Lee's disappointing results continue to affect VF's overall results adversely : the operating results of the jeanswear division (and of VF as a whole) have persistently declined since 1987.

The chief executives of the two companies, VF's Mr Pugh and Lee's Mr Rowan, are confident that Lee will manage to climb back in 1991 ; they claim that Lee is already gaining back some of the lost ground. The results in the second half of 1991 are forecast to be better than those of the second half of 1990.

Lee's products have for many years been marketed outside the US by VF's International Division (VF International). This is done either via exports and licensing agreements or via joint ventures and Lee's own branches. After having been present in the Canadian market for a number of years, Lee discontinued its production and sales there in 1985, and now has its products made under a licensing agreement. Lee's joint venture in Brazil was sold in 1988 and replaced by a licensing agreement. Lee is also active in the Asian market.

Lee has been active and successful in the European market for some twenty years. Initially the company had its headquarters in London, but then moved to Sint-Niklaas, Belgium, and is soon to go to Brussels. In the new hierarchy the Brussels head office will be placed higher than Wrangler's London office.

Lee has sales offices in most European countries. There are production facilities (for the European market) in Belgium, Britain and Northern Ireland, the Irish Republic and Malta. Until 1981 Lee had a production plant in Scotland too, at Greenock, but it was closed down amid violent protests from male and female workers and their sympathizers, and former managers succeeded in re-opening the plant.

In Belgium as well as in Northern Ireland new technologies have been implemented, so that production times and delivery times have been reduced considerably. The general objective is to reduce stocks as much as possible (and thus to reduce costs), to have a centralized distribution system, and to supply the retailer with the product needed within 48 hours. When introducing new technologies, Lee often avails itself of public support, which can therefore be considered a factor influencing the choice of location.

VF Corporation has decided to focus even more strongly on the European market. Apart from the Lee and Wrangler brands, other VF brands, such as Bassett-Walker and Vanity Fair, will shortly be competing in Europe. "Europe" here stands for East Europe as well, and it is likely that European companies will be taken over.

So far Europeans appear to have taken to the American jeanswear giants to a far lesser extent than the American consumers. Levi, for example, had a market share of 24% (by volume) in the US in 1987, whereas in Europe it cornered a mere 11%. In the same year Lee had market shares of 14% and 2%, respectively. It is only in Britain that Levi as well as Lee have larger shares, since that country has always shown a greater liking for jeanswear than mainland Europe. Lee's target figure is a 5% market share in every European country.

The sales of jeanswear outside the US, notably in Europe, have become increasingly important to VF Corporation. In 1989, 12% of VF's turnover of jeanswear was accounted for by foreign markets, and in 1990 that percentage had grown to 17% (i.e. \$ 244 million). In 1991 it is the first time that Lee is spending a very substantial amount of money on an advertising campaign focusing on ten European countries, the aim being to give Lee's name an even greater popularity. In this way Lee intends to compete against Levi Strauss in Europe as well.

The Market Response System, tested out in the US, is being implemented in the European plants too.

The trade-union movement in Europe needs to be aware that both VF Corporation and its daughter company Lee intend to focus on Europe to an increasing extent. VF will be trying to acquire European companies. By means of large-scale advertising campaigns, Lee will be trying to build up its image and to enlarge its market share. Lee has already taken steps to supply European retailers much faster.

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- Letter from the Company Secretary of Lee UK.
- Telephone conversation with Mr Martin Donegan of ATGWUU in Belfast.
- Telephone conversation with the Finnish Trade Registry.
- Telephone conversation with Lee Finland.
- Telephone conversations with Lee Europe.
