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CEO JOHN ANDERSON DELIVERS SUSTAINABILITY SPEECH AT UC BERKELEY

A New Way of Thinking About Companies, Society, and Sustainability John Anderson, president and CEO, Levi Strauss & Co. Delivered at Haas School of Business, UC Berkeley January 25, 2010

SAN FRANCISCO (January 25, 2010) – I have a dilemma.

Anyone who has ever worked for Levi Strauss & Co. and wants to start talking about the responsibilities of the corporation, would be well advised to approach the topic with a bit of modesty.

At the very least, they should recognize that the topic is not exactly a new one for this company. The relationship between Levi Strauss & Co., its products, its employees, and its customers is -- to use the unavoidable metaphor -- woven deep in the fabric of this place. I realized it on the first day I arrived.

It's an entrenched part of our history.

Everyone who works here quickly learns the stories of how an 156-year-old company earned profit through principle at every stage of its history:

- How we kept employees on the payroll even after the earthquake of 1906
- How we integrated our factories years before it was common practice.
- How we pioneered policies for employees with HIV/AIDS.
- How we created the Red Tab Foundation to help retired employees in times of need.
- Even in today's tough economic times, we remain committed. Last week in response to the devastating earthquake in Haiti, we provided grants to organizations supporting the rescue and relief efforts and are matching employee contributions.

In the context of that humbling history, I'd like to dive into the subject of responsibility of companies today.

I do so with some hesitation. Today might be one of the most difficult times in recent memory to talk about trust, responsibility, and reputation in business. The financial crises and the Wall Street excesses of the last few years have, if anything, eroded public trust in business. Even the motives of well-intentioned companies, I'm afraid, have been hurt in this mess.

One of the other victims, has been the very notion of Corporate Social Responsibility -- CSR -- the idea that companies have a higher responsibility than maximizing profit. I think the general cynicism about business that has emerged over the last year or so has encouraged critics.

On the right, we hear more people echoing the arguments of the late economist Milton Friedman that a company should only be in the business of returning profit to the shareholder.

And on the left, some, like, Berkeley professor Robert Reich, argue that CSR has just become a form of brand marketing. It's a rich debate...and both sides have a legitimate point of view.

Despite these arguments, there is some practical, in-the-field evidence that companies that are committed to responsible citizenship really do believe it makes a difference for the health of their

companies.

Not long ago, McKinsey & Co., the consulting firm, surveyed a large group of chief financial officers about CSR. They found that a large majority of these CFOs believed that their company's CSR initiatives really did create value and strengthen the organization. The problem was that they didn't know exactly how to measure that success.

With this level of doubt and confusion about what a company can do to make a difference, I want to suggest it might be time for some fresh thinking about the responsibilities of a company. I want to focus my talk on the issue of sustainability, which is known to all of you here. To me, sustainability has become the touchstone of the entire discussion about the relationship between business and the society it serves.

It is a global issue, with an impact in every country, and every community.

It is the focus of legislation at every level and, certainly in the coming year, the United States Senate, as we look ahead to the debate on climate and energy legislation.

It is becoming well documented as a source of cost efficiency and savings through reduction of energy consumption, excess materials, and more efficient business practices. Witness Wal-Mart's success in this area, and even as a source of business opportunity, as GE's Ecomagination efforts have demonstrated.

And, most important, sustainability has broad and deep global support. This is not a contentious issue. It is, instead, a mandate for creative thinking and imaginative partnerships.

Now, as I alluded to earlier, the sustainability movement is hardly new. Companies have been talking about green policies for some time now. But today – perhaps more than ever – we in business need to establish a new level of leadership in sustainability. We need a more rigorous and systematic way of illustrating the problem – and solving it.

If sustainability in business slips into a few well-worn clichés and corporate slogans, then I think we are failing in our role as business leaders. In order to recapture public trust, we need to be as rigorous about sustainability as we are about our business, our financial reporting, and our relations with customers.

At Levi Strauss & Co., thinking about sustainability was just a natural extension of the way we saw ourselves and our responsibility. By the later part of the last century, we had become one of the world's most famous global brands. We had factories around the world. Hundreds of stores. We shipped and trucked our clothes hundreds of thousands of miles. We made an impact on the environment that we were very much aware of.

And we tried to do something about it. For more than two decades, Levi's has been a leader on environmental issues. Two decades ago we established our own global sourcing guidelines that stated, among other things, that we would only do business with partners who share our commitment to the environment and conduct their business in line with our philosophy.

It was a start. And we kept pushing, with a restricted substance list, global effluent guidelines, and ambitious recycling and reuse programs. The long-term goal remains to be a zero-impact company. *We want to build sustainability into everything we do so that our profitable growth helps restore the environment.* We think about it all the time. It is part of our business ethos.

We weren't alone on this front. There have been lots of great, visionary companies that through determination and innovation were moving toward becoming a carbon-neutral business. They

deserve our applause and encouragement.

But the more we looked at the world, and looked at ourselves, the more we felt we needed to be even tougher on this issue. Like the CFOs who knew that corporate social responsibility was important but just couldn't measure it, we felt the same way toward sustainability. *What really was our impact on the environment?*

So we decided to take another step. A leap really. We wanted to build a rigorous and credible assessment of our own impact on sustainability. Something that was science-based and led by a independent third-party. We wanted to understand not just the programs we had started, but the real impact of our products in their entire life-cycle. A cradle-to-grave study.

Our instinct was that if we understood the full scope of our impact, we could create a sustainability program that was far more comprehensive and meaningful. And we also felt that understanding our true impact would give us the clarity to articulate our vision and set priorities for our environmental work around the world. We didn't just want praise for what we had done in the past. We wanted an action plan for the future. So we got started. Allow me to take a few minutes to tell you about what became known as our "life cycle assessment."

We started with the basics. One pair of Levi's 501 Jeans. One pair of Dockers Original Khakis.

And we asked an independent team to tell us everything -- everything -- that went into the full life cycle of these two core products. Every input, every cost, every impact -- from the cotton in the ground to the last time the pants are washed or taken to a landfill.

To conduct the study, we worked with expert scientists from PE Americas, a Boston-based firm, to track our energy, water, climate, and every other impact they could find, whether it was cutting fabric or shipping the pants to a mall.

We wanted to develop some hard and fast measurements. We wanted to know the full impact -- not just a snapshot that would make us look good.

The whole study took almost a year. And the results were more detailed, with greater implications, than we could have imagined.

Our study found that a single pair of 501s, from growing the cotton to consumer care and disposal really does have an impact. A significant one. The life cycle study of one pair of 501s generates:

- 32.3 kilograms of carbon. That is equivalent to 78 miles driven by the average car in the United States. It's the same amount of carbon sequestered by six trees a year.
- The 501s used 3480 liters of water -- the same as taking 53 showers, or running a garden hose for 106 minutes. Or flushing a toilet 575 times.
- Then there is energy use. 400 megajoules of energy -- as much as it takes to power a plasma-screen TV for 318 hours.

I think if we had stopped analyzing the data right there, it would have been instructive. But it also would have been incomplete.

The truth is -- and this isn't boasting -- the policies already in place at Levi Strauss & Co. for reducing energy, water, and chemicals in our manufacturing process had come a long way. We have made real strides and are proud to be leaders in the apparel industry.

But the real lesson of the life cycle study is that some of the biggest sustainability impacts have nothing to do with processing denim, sewing jeans, or shipping clothes.

What we learned – to our surprise – was that some of the biggest environmental impacts we make fall outside our supply chain control: namely, growing cotton and consumers washing and drying our clothes.

This was a bit of a revelation for us.

Looking at water use for a pair of 501s:

49 percent of the water is used to grow the cotton and 45 percent is used when our customers wash their jeans. That means only 6 percent of the water is used in the rest of the manufacturing process.

There's a similar picture when you look at climate change impact and energy consumption.

58 percent of the climate impact of a pair of 501s occurs in the consumer use phase---energy used in washing and drying. So only 42 percent occurs before the consumer takes their jeans home.

I guess there are two ways to react to the this news. One is to say: "phew." We are not to blame. It's someone else's problem. But as you might guess, Levi Strauss & Co. has never really taken a narrow view of our business or responsibilities.

So that led us to the only other reasonable reaction. We realized that if we were going to talk about sustainability -- and talk about it seriously -- we needed to stretch well beyond our immediate business. We need to think about how we might harness the power of our brands to address issues as big as cotton and the washing machine.

Integrity is a deeply felt corporate value for us and for the products we make. Simply "outsourcing" the manufacturing process doesn't absolve us from responsibility for the overall impact of our products.

So what do we do?

Changing the way cotton is grown and what people do with our products once they leave the store isn't something we have a direct hand in. We had to figure out how we could influence a fragmented global agricultural business, on the one end of the pipeline, and change the behavior of millions of Levi's customers at the other end.

Let me dive into this a bit just so you understand the scope of the problem.

Cotton is our core raw material. Over 95 percent of all our products use cotton.

Cotton is the world's largest non-food crop. It is grown in more than 100 countries with China, India, and the U.S. being the top producers. In 2008 the cotton textile market was valued at more than \$40 billion.

In terms of impact, more than 40 million farmers and 290 million farm workers depend on cotton for their livelihood. Eighty percent of cotton farms are quite small and many are family owned. Cotton uses a lot of pesticides and drinks up a lot of water.

Cotton is a massive industry and when you think about its impact on people and the environment, it dwarfs the manufacturing stage of our product life cycle.

Our challenge is that because cotton is a commodity, it is extremely difficult to trace where the cotton in any given product comes from. We get our cotton fabric from close to 150 mills. Based on mill locations, we can roughly determine that the majority of our cotton comes from the U.S., China, India, Pakistan, and Turkey; but there is no credible, reliable system to trace the origin of the global cotton supply. However, we are piloting a traceability program this year and we hope this will help better inform our role in the process.

As you can see, cotton is a complex business and influencing the way it is grown is no easy task. Even though Levi's is a large cotton consumer, the reality is that we use less than one percent of the world's annual cotton crop.

So we have to ask: How can we impact cotton growing practices at the farm level?

Our response is to try to work at three levels:

- Build a sustainable cotton supply chain
- Create alliances with all businesses that use cotton
- Work with farmers to help improve their growing methods

To that end, we've joined forces with other brands and retailers such as Marks & Spencer, Adidas, and Ikea in an organization called the Better Cotton Initiative. You know about organic cotton, which addresses the use of chemicals in cotton agriculture. Better Cotton reduces chemical use and goes beyond that to try and address other environmental impacts, such as water use and soil health. It also includes labor standards and tries to improve financial profitability for farmers. So, it incorporates the 3 key aspects of sustainability --- environmental, social, and economic sustainability.

Our goal in working with other brands on the Better Cotton Initiative is to mobilize greater buying power to make cotton agriculture more sustainable throughout the world. We've had three years of experience and initial results are encouraging---we've seen one third reduction in pesticide and water use and net profit increases for farmers up to 69 percent at the pilot sites.

Another example of how we're trying to influence change concerns cotton grown in Uzbekistan. Over the past two years, we've teamed up with other companies, socially responsible investors, and NGOs to take a stand on how cotton is grown in that country, where forced child labor is a big concern. We don't buy cotton directly, and we have asked our suppliers not to buy Uzbek cotton. Through this coalition, we are sending a powerful message to the Uzbek government to end the practice of taking children from school and forcing them to work in the fields picking cotton. We see this as part and parcel of sustainability issues.

More important for us at Levi's, it is a part our legacy. In the late 1800s, we published advertising posters for our jeans that read "Patented Riveted Clothing...The Best in use for Farmers, Mechanics, and Miners." Since then our customer base has broadened. But I think a company that started focusing on the needs of farmers ought to have a responsibility to continue to work with them -- improving their work and product -- 150 years later. We are proud to do it.

As I mentioned, growing cotton is one end of the problem. How consumers use our products is the other.

Through our life cycle assessment, we learned a lot about washing and drying clothes.... A lot.

Some of it is pretty basic: washing in cold water instead of warm, switching from a top-loaded to front-loaded washing machine, and line-drying all can make a big difference to climate impact. And if we could encourage customers to wash their jeans less frequently, that would reduce the climate, energy, and water impact all at once. For example, if you washed your jeans once every two weeks instead of once a week over two years, you could cut the climate impact from 32 to 21 kilograms of carbon dioxide equivalent – 30%. Water consumption would drop more than 25%. And, by the way, you also save money.

Small steps. Big impact.

In truth, this part of the life-cycle might be easier for us. We have always been a consumer-facing company. As anyone who has been to our archives in San Francisco and seen the thousands of letters we've received can tell you, we are in constant conversation with millions of our customers about style, fit, and quality.

Now we have to broaden that conversation. Everything I have learned about our customers tells me that this is a topic they really do want to be engaged in. They want to know more about the environmental impact of their fashion choices. They want to be responsible about how they care for their clothes. They think it is the right thing for us to stimulate a dialogue with them about what happens to our products after they've been purchased.

So we are starting with small steps.

- We partnered with the Alliance to Save Energy and Procter & Gamble, to encourage consumers to save energy – and money – by washing their jeans in cold water.
- We recently launched an exciting new partnership with Goodwill -- A Care Tag for Our Planet – to spread the word with consumers that caring for their clothes can help care for the planet.
- By changing our care tags, we were the first major apparel company to change our garment care labels to urge consumers to take action by “washing in cold water” line drying” and “donating unwanted clothing. We're hoping this helps put a dent in the 68 billion pounds of clothing a year that end up in landfills.
- In fact, we're launching this in our retail stores today, with Care Tag education in the windows of all our retail stores in the United States and promotions with local Goodwill locations across the country. And we're working to roll this out globally.

The role here for creativity, imagination, and outreach is huge. But it is one that we are very comfortable with. Anyone who remembers sitting in a bath tub with their first pair of rigid 501 jeans so that they would “shrink-to-fit” understands that we have always had a bond with our customers that goes beyond manufacturing. Your parents might remember doing that!

We spend a lot of time thinking about how customers wear our clothes. Now we have to spend just as much time thinking about how our customers care for them.

What have we learned in all this? To begin with, in the apparel industry, you realize what a paradoxical life you must lead. On the one hand, you have to pay attention to changing tastes and fashion. On the other hand, you have to keep your eye on enduring values if you are going to be true to yourself.

That's the test that sustainability puts to us. It's what makes the challenge so interesting.

And it is a challenge. I won't pretend for a second that even if we get everything right, we will have solved all the environmental issues before us. We are deeply active in reducing our overall carbon footprint, building sustainable retail stores, and making our manufacturing even more

efficient.

But sustainability, as I've tried to describe today, sets out a broader, harder role for us.

Our first goal, of course, is to reduce the long-term environmental impact of our products – and influence our partners and customers along the way to help us.

But I also have to admit a second goal. This process for us was a new way of thinking about how a company that values both profits and principle can engage in society in a new way. I'm hoping what we have started becomes a template for other businesses, inside and outside the clothing industry, as well as young business leaders like you.

My advice is pretty simple:

- First, establish common measurements, measure the right things, and do it rigorously. It is the only way to really and honestly understand the impact your business has on the environment.
- Second, look beyond your company's walls, and even well beyond its immediate business activities. Like it or not, we are all part of an ecosystem, and you can exert real influence on it.
- Third, engage your suppliers and your customers. Expand your sphere of influence. Help them understand your values by sharing your insights with them. They will be better partners and stakeholders as a result.
- And finally, build your commitment to sustainability into your culture, your business goals, your operations, your public presence. Sustainability isn't an initiative or a project. It's a world view.

Some people might ask: can a company afford to do this? The easy retort is to say that we can't afford not to do it. The cost savings and risk reduction for our business future is very clear. The more complicated answer is no less true. There are now lots of good research that show that it is precisely the healthy companies that derive the most benefits from proactive sustainability efforts. It really is a virtuous circle that enhances your brand, your employees and your customers.

Let me share some of our experience. A couple of years ago, Levi Strauss & Co. was fighting for our business survival. Sales were down around the world and we had to take a hard look at what we could do to better respond to our customers' needs.

We did extensive research with our consumers -- and we found that they loved the company and loved our brands. But they just weren't happy with the product offerings at the time. They were rooting for us, wanting us to succeed, wanting to buy our products. The feedback was clear: they had this incredible loyalty to our brands because we had spent more than 150 years leading with our values. They knew we were a company that would do the right thing, that was authentic -- and they trusted us. They just didn't like our products at the time. We worked hard to turn that around so now we're market leaders again – but I believe that our values were part of that process.

I put emphasis on consistent and authentic values -- because I strongly believe that customers quickly sniff out companies who do things for short term PR or marketing. They know the difference and they reward it with their loyalty.

So even when companies and consumers are cutting back, I'm not hesitant to say that there is a genuine and productive role here for well-known brands like ours to take the lead. We want to use our reputation and our history not just to sell products, but to shape the environment in which they are used and manufactured.

When we do this right, a company is not just being a good corporate citizen. It is aspiring to

change the world for the better. Levi's became famous because, as our motto said, we wanted to "change the way people dress around the world."

I don't see why a business, looking far beyond its own boundaries, can't aspire to change the way people around the world think. We want to be part of that transformation. It is one of the most energizing activities we can do. As a business leader of the future, I hope you'll join us, challenge us, engage with us, and help us do it better.

Thank you very much.