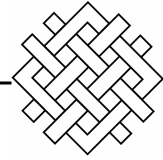
CEMP: Corporate Environmental Program
The University of Michigan



Sustainable Enterprise Program
A program of the World Resources Institute

DEJA SHOE (B):
Product Launch

Recognizing the changing role of the corporation in society, the University of Michigan's Business School and the School of Natural Resources created the Corporate Environmental Management Program (CEMP). The program is designed to develop leaders, executives, and managers – whether they work in the private sector, public sector, or for an environmental non-profit – with the skills and knowledge required to create economically and environmentally sustainable organizations Permission to reprint this case is available at the BELL case store. Additional information on the Case Series, BELL, and WRI is available at: www.BELLinnovation.org.

The Spring '93 Season

Envirolites and Eco-sneaks were shipped to Deja's accounts in March 1993. Many stores had prepared special displays to showcase the innovative product or had tied promotions of Deja shoes to Earth Day (the third week in April). Yet despite the retailers' efforts to push the shoes, sell-through did not occur in many mainstream retail stores. MacGregor dryly characterized the situation in the spring of 1993, "The product shipped, and the product sat."

Despite the displays and the product's environmental attributes, consumers opted for canvass shoes in the traditional $20 to $30 range. Quality problems also plagued the product. Because Eco-Fibre's canvass was recycled and its fibers were shorter than in virgin canvass material, the fabric didn't wear very well. On some pairs, the canvass upper became detached from the sole and the material was ripping out in the back of the shoe. As a result, many shoes were returned. MacGregor explained, "What we constantly heard from consumers, through the retailers, was, 'People loved the concept, people don't like the shoes.'"

Mainstream retailers reacted by dropping their focus on the environmental footwear. Nordstrom's Earth Day display was pulled down the day after, and many other stores removed Deja shoes from window displays.

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*This case was prepared by **Paul W. Hardy** under the supervision of **Stuart Hart**, Director of the University of Michigan's **Corporate Environmental Management Program (CEMP)**, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. We gratefully acknowledge the support of **Consumers Power** in developing teaching materials in corporate environmental management.*
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World Resources Institute has collaborated with CEMP to help disseminate this case to a wider audience. For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, helps universities, graduate schools and corporations integrate environmental issues into their educational programs, and provides new thinking about the relationship between business and the environment.

Sell-through in the green stores was “O.K.”, according to Lewis. However, relative to the large orders that the green stores placed with Deja sales representatives, their inventory turnover was low.

Deja’s Reaction

Management decided not to introduce a new line for the fall ‘93 season, as was the industry norm. Although for a pre-existing business, missing a season could lead to consumers drifting towards a competitor’s product, that was not a concern for Deja. Rather, the company was concerned with obtaining financing to invest in product development. Much of the first round of venture capital had been spent, yet the company did not have a product which would be viable in the mainstream market.

The company was successful in securing a second round of equity financing in May 1993 totaling $1,320,000. The second round was financed principally by the existing investor group with smaller sums invested by management. Deja finished 1993 with $1.5 million in sales, well below the $5 million that management and venture capitalists had targeted. Thus the additional equity was necessary for covering operational costs and to replace the failed canvass design.

The company moved quickly to develop alternative materials. Although no new products would be introduced until fall ‘94, this was still a very short lead-time to complete product design, manufacturing and shipping the finished product from the Far East. Industry standard lead-times for new products was generally three years. Yet the company was able to redesign the entire product line and develop new materials to replace the faulty canvass in just over a year. By mid-1994, MacGregor exclaimed, “We had hemp footwear; we had a material called Terra-guard which looked, felt, and wore like leather but in fact was not leather. Then there was vegetal leather from the Brazilian rainforest.”

The hemp material was sourced in Hungary, while Terra-guard, a polyurethane material produced from petroleum byproducts, was sourced from Japan and finished in Wisconsin. Vegetal leather is a substance made from plant extracts which also looks, wears and feels like traditional leather produced from animal skins. Management viewed the leather substitute as a necessity; MacGregor knew that between 80% and 90% of the footwear sold in the United States was leather. Yet, Lewis explained why the company had a corporate policy that prohibited the use of leather from animal skins and had to seek a substitute:

> *...We’ve made this decision based on our belief that much of the ecological impact associated with deforestation and loss of biodiversity has to do with our excessive use and dependence on animal products: meat and leather from both wild and domestic sources. Also, the process of tanning leather adds to the chemical pollution of the environment. So in keeping with our beliefs in the concept of sustainable development, we as a company have made it a policy not to use leather.*

Deja purchased vegetal leather from indigenous communities in the Amazon that sustainably harvested the material from the rain forest. Income derived from vegetal leather sales provided the communities with an environmentally friendly alternative to traditional extractive economic activities.

Due to the inadequate manufacturing infrastructure in the region of Brazil where vegetal leather is sourced, Deja shipped the raw material from the Amazon to the Far East where the shoe components were produced and assembled. Lewis hoped to expand the program to increase the communities’ economic benefits and to ensure the long-term preservation of the forest’s biological resources. Manufacturing the shoe components close to the material’s source in Brazil was considered as a long-term possibility.

With no new product to generate sales revenue and operating and research costs mounting, Deja raised $5,066,000 from five investors in a third round of equity financing in June 1994. Among the group of five was a new investor - VMT Enterprise Company, Ltd - Deja's footwear agent in Asia. When the new designs and materials arrived in stores in the fall '94, they had much better sell-through than the earlier designs. Sales of the fall '94 line grew 200% over the spring '93 line, to $3 million.

The awards and press attention continued. In 1994, Deja, Inc. was awarded with the American Marketing Association's Edison Award for Environmental Achievement and the United Nation's Fashion Industry and the Environment Award. The inscription on the United Nations award hailed the company for its "creative and exemplary initiatives in manufacturing products based on principles of waste reduction and the sustainable use of the Earth's resources." In accepting the award, MacGregor claimed that it "demonstrates the potential we have in our industry for making environmentalism a meaningful and profitable endeavor." The press attention and awards led the National Geographic Society to lead-off its June 1994 cover story on recycling with a feature on Deja shoes.

As a result of the products increasing popularity and consumer appeal, Deja added several new accounts. Lady Footlocker carried Deja's fall '94 line on a two store trial basis. The product sold so well that Lady Footlocker expanded its account to 150 of its stores for the spring '95 line. Company estimates of the growth in accounts are located in Exhibit 1.

An improvement m the company's operational performance is indicated by the fact that Deja's costs for producing the shoes was lowered to $17.50, approaching industry norms. Yet in order to support working capital needs, including production of the spring '95 inventory, an additional $2.5 million was secured in a fourth round of equity financing from the original three venture capital firms, Allstate Venture Capital, BancBoston, and U.S. Venture Partners. The fully diluted ownership of the company can be found in Exhibit 2.

Despite the additional financing in 1994, the company could not generate enough revenue off the fall '94 line to produce the next season's designs and break-even in 1995. The long delay from the time the company's capital was invested in inventory to the receipt of sales revenue left the company with a shortfall of operating cash. MacGregor sought an additional $3 million in venture capital to finance the spring and fall '95 lines and carry the company to the break-even point by mid-1996.

BancBoston, however, declared that it would not participate in another round of equity financing, citing the fact that the company had not hit sales projections in the previous two years and believing the '96 break-even point to be unrealistic. Allstate Venture Capital and U.S. Venture Partners indicated that they would continue their support, contingent upon Deja finding a third investor to replace BancBoston. Despite extensive efforts by members of the management team to locate another source of financing in the venture capital and environmental communities, they could not find a third investor. In May 1995, Deja, Inc. voluntarily liquidated its assets to pay its creditors.

Exhibit 1
Growth in Deja, Inc.'s Accounts

While the projected growth in net new accounts is important to the company's overall growth, the Company believes there is a significant opportunity to add new storefronts merchandising the Deja Shoe brand by expanding its penetration in key accounts. If key accounts want to consider carrying a new brand, they typically test the brand with a small, select group of stores before beginning to roll out the brand to a much larger group of stores. Most of the Company's existing key accounts are in the early stages of rolling out the brand to a larger group of stores, giving the Company the potential to expand its business significantly by adding new storefronts belonging to existing customers. The following chart shows the anticipated account build-up for traditional and nontraditional channels:

Account History						
	1993A	**1994A**	**1995P**	**1996P**	**1997P**	**1998P**
Accounts added (net)	**400**	**310**	**450**	**650**	**1,000**	**1,250**
Accounts end of year	**400**	**710**	**1,160**	**1,810**	**2,810**	**4,060**
Store fronts per account	**4.25**	**1.25**	**1.50**	**2.50**	**2.75**	**3.00**
Pairs sold per existing store front	**0**	**80**	**95**	**125**	**140**	**175**
Pairs sold per new store front	**125**	**80**	**85**	**115**	**120**	**130**
Total pairs forecast ('000's)	**62**	**71**	**141.7**	**382.2**	**776.3**	**1,526.6**

Source: Business Plan, Deja, Inc.

Exhibit 2
Fully Diluted Ownership, December 1994

	Common Stock Equivalents	**Fully Diluted % Ownership**
Allstate Venture Capital	**2,967,241**	**35.2%**
U.S. Venture Partners	**1,346,436**	**16.0%**
BancBoston	**1,016,614**	**12.1%**
VMT Enterprise Co. Ltd.	**530,000**	**6.3%**
Private Investor	**530,000**	**6.3%**
Management, Including Incentive Stock Options	**1,783,741**	**21.2%**
Other Investors, Non-Management	**249,439**	**2.9%**
Totals	**8,423,471**	**$ 114,818**

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