

ESPRIT INTERNATIONAL

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Lynda Grose, head designer for the Ecollection clothing line, walked down the halls of the Esprit headquarters, admiring the Amish quilt collection that had been a hallmark of the San Francisco offices during her twelve years with the company. The intricately-woven quilts reminded her of the qualities on which the Esprit Corporation had been built: cultural awareness, social responsibility, and “free-spirit”. In contrast, the sales figures that she held in her hand represented the reality of working in the highly competitive, and in recent years, somewhat depressed, fashion industry.

Grose entered Esprit’s conference room, a converted old greenhouse, to find Dan Imhoff and other key members of the Ecollection department waiting to discuss the first season’s performance of Esprit’s new environmentally sensitive women’s clothing line. The following week, Birgit Kelley, President of Esprit International, would be presenting these Ecollection results at a Division Head meeting. Although Ecollection was supported by the founders of Esprit, the Division Heads, who had bottom line responsibility for all Esprit goods, were skeptical of the manufacturing and marketing processes. The Ecollection group needed to come up with a plan for the fall season to bring Ecollection in line with Esprit’s overall marketing strategy.

Building an Esprit Culture

Esprit de Corp History

Esprit de Corp was perhaps the hottest of the high flyers in the women’s apparel industry throughout the 1980’s. The Esprit name became known worldwide for its colorful, mega-trendy sportswear styles that catered mostly to the teenage crowd. From the late seventies to the early eighties,

the San Francisco-based firm grew from a small dress-maker to one of the largest privately owned companies in the fashion industry. At corporate headquarters, known as “Little Utopia”, employees were encouraged to become socially active citizens, learn new languages, and maintain healthy lifestyles. Company perks included free rafting and backpacking vacations, on-site aerobics classes, and subsidized theater tickets.¹

At the head of the Esprit family were Susie and Douglas Tompkins. The couple met in 1963 when Susie, then a Nevada casino worker, picked up Doug hitchhiking on a mountain road in the Sierra Mountains. Doug had been working as a ski instructor while training for the Olympics, and had started his own mountaineering outfitter company called The North Face. The two married soon afterward, and Doug began to manage Susie’s small dress-making business. After buying out Susie’s partners in the business, the two changed the company’s name to Esprit de Corp, and launched a new clothing line consisting of quirky, brightly colored, loose-fitting casuals. Within a few years, the Esprit line took off.²

Doug maintained the corporate role of “image director” while Susie retained the job of “creative design director”. Throughout most of the 1980’s, sales skyrocketed as Esprit defined and dominated the market for high-prices junior sportswear. The line expanded to target females from toddler age to young professionals. As their slogan stated, “It’s not an age, it’s an attitude.” Image and creativity were the lifeblood of Esprit. The colors and styles were not necessarily based on Seventh Avenue or market research, but on the intuitions of a few key designers, and on the free spirit image masterminded by Doug.

Events at Esprit began to take a turn for the worse during the latter part of 1986, when Esprit suffered its first loss in the company’s history (see Exhibit A). For the fiscal year ending June 30, 1987, the company reported an earnings drop of approximately 80 percent from the previous year.³ Clothing sales slid abruptly as buying trends changes and prices in Hong Kong, where most Esprit garments were produced, suddenly skyrocketed. The company was criticized for not changing its styles to meet the more sophisticated tastes of its core customers. As one industry consultant put it, “Their customer was growing up, and they weren’t growing up with her.”⁴

During this time, the relationship between the Tompkins also began to falter, ending with the couple’s divorce in 1989. Susie decided to take some time off to travel, while Doug assumed the duties of chief operating officer of the company. In June 1990, feeling that Doug could not bring Esprit back to profitability again, Susie and three investors (including Bruce Katz, founder of Rockport Shoes, and Michael Ying, Managing Director of Esprit Asia) purchased Doug’s share of Esprit for an estimated \$125 million in a leveraged buyout.⁵ Once again, Susie managed the design process and insisted that profits were but a means for Esprit to stay socially responsible: “My aim is that Esprit inspire good values.”⁶

The financial managers, however, insisted that all operating decisions make good business sense. The bottom-line team cut the workforce in half in the late 1980’s, and sold off

¹ King, Ralph, Jr., “How Esprit de Corp Lost Its Esprit,” *Forbes*, March 21, 1992, pp. 91-94.

² *Ibid*, pp. 91-94

³ Scott, Mary and Rothman, Howard, “The Spirit of Esprit,” *Companies with a Conscience*.

⁴ Rapp, Ellen, “The War of the Bosses,” *Working Woman*, June 1990, pp. 57-59.

⁵ Scott, Mary and Rothman, Howard, “The Spirit of Esprit,” *Companies with a Conscience*.

⁶ Zinn, Laura, “Will Politically Correct Sell Sweaters?” *Business Week*, March 16, 1992, pp. 60-61

buildings and other assets. One executive explained, “With fewer people we are more focused, (sic) we are more productive. We have put controls in place and we are much more effective.”⁷

Esprit’s Social and Environmental Ethic

From its origin in the late 1960’s, Esprit was recognized as one of the most innovative companies in the competitive fashion industry. Many believed Esprit’s success was due to its ability to sell lifestyle not only to its customers, but to all levels of the company. As part of its commitment to the free spirit, Esprit encouraged employees to maintain healthy lifestyles and become socially and environmentally active on an everyday basis. The Esprit company mission statement indicated this commitment:

Be Informed. Be Involved. Make a Difference.

Susies Tompkins commented that encouraging and helping employees live these values has long-term advantages: “Helping our employees contribute and feel good about what they do and who they are buys us a loyalty that money cannot.”⁸

The company held in-house seminars which challenged employees to be leaders and to come up with innovative ideas that went beyond their job descriptions. Community service and volunteerism were actively promoted. Employees were granted up to ten hours paid leave per month to volunteer for the community organization of their choice, provided they donated an equal amount of their personal time to the cause. In addition to on-going commitments, Esprit organized group volunteer activities that could be completed in one or two days, and was also one of the corporate sponsors of Earth Day 1990. Eco-Desk, an environmental and social affairs department, was initiated to coordinate the charitable and community activities within Esprit.

Una, a designer that left the fashion industry on Seventh Avenue for Esprit, described the working environment: “I had never realized how caught up in the New York fashion world is in material things. Here, they [Esprit] know there is something to the bigger picture.”⁹ In May of 1990, the company initiated a lecture series to educate and inspire its employees about current world affairs. Once a month, employees gathered over the lunch hour at the headquarters to learn more about social issues from various speakers including Ben Cohen, co-founder of Ben and Jerry’s Home Made Ice Cream, and consumer rights activist Ralph Nader. At the same time, Esprit contacted the Ellwood Institute to deliver a guide detailing how workers could prepare their own eco-audits. The eco-audits encouraged “reducing, reusing, and recycling,” with the goal of increasing environmental awareness among employees.

Even while Esprit was living out its social values within the company’s operations, it could not dismiss that its consumers were caught up in the conspicuous consumption of the 1980’s. Feeling that its customers were not acting as socially and environmentally responsible as the company itself, Esprit instituted the following advertising campaign in 1990:

⁷ Benson, Heidi, “Reinventing Esprit,” *San Francisco Focus*, February 1991, pp. 41-43, 109-111

⁸ Scott, Mary and Rothman, Howard, “The Spirit of Esprit,” *Companies with a Conscience*.

⁹ *Ibid.*

The direction of an environmentally conscious style is not to have conspicuous consumption written all over your attire. We believe this could best be achieved by simply asking yourself before you buy something (from us or any other company) whether this is something you really need. It could be you'll buy more or less from us, but only what you need. We'll be happy to adjust our business up or down accordingly, because we'll feel we're then contributing to a healthier attitude about consumption. We know this is heresy in a growth economy, but frankly, if this kind of thinking doesn't catch on quickly, we, like a plague of locusts, will devour all that's left of the planet.¹⁰

Today's Organizational Structure

Esprit de Corp was the holding company of four separately owned international divisions (see **Exhibit B**). Clothing was marketed in forty countries worldwide through Esprit USA, Esprit International, Esprit Europe and Esprit Asia. International licensing and partnership agreements were managed by Esprit International, located in San Francisco. Esprit Europe (located in Düsseldorf) and Esprit USA maintained separate design studios where fashions were fine-tuned to meet the tastes of their specific markets. Approximately 70% of the garments made by Esprit were produced in Asian manufacturing facilities, and then sold wholesale to the U.S., European, and Asian divisions. Other product lines, such as bed and bath, socks, and eyewear, were produced by independent manufacturers, and licensed and remarketed under the Esprit label.

Distribution networks were unique within each international division (see **Exhibit C**). Esprit USA owned six retail stores and ten discount outlets, and had fourteen franchise stores throughout the United States. Although only 76% of Esprit distribution locations were “shop-in-shops” or department stores such as Bloomingdales and Macy's, 90% of Esprit USA products were sold through department stores. The primary markets for Esprit USA were the west coast and the southern region of the U.S.¹¹ Domestic sales were approximately \$350 million per year.¹²

In contrast, Esprit Europe's sales relied predominantly on free-standing Esprit retail stores. Only 21% of Europe's distribution was through shop-in-shops. In 1991, Esprit was ranked 31 out of the top 100 European fashion companies, generating US \$294 million in revenues. In comparison to single-brand companies, Esprit's performance was equal in sales to Giorgio Armani, Burberry, and Fila Sport. Peter Biffar, the new CEO of Esprit Germany, said he would follow a strategic direction and adhered to the following tactics: 1) focus on existing product lines and countries; 2) expand distribution and strengthen control over point of sale; 3) increase operational efficiencies; and 4) maintain quality of brand name image.¹³

Esprit Asia distributed through a combination of retail and wholesale markets, and was Esprit's fastest growing market. Hong Kong alone had 13 company-owned shops, including two new free-standing stores for Bed and Bath and Shoes and Accessories. Singapore had four company-owned stores, with another planned to open in 1992. A significant wholesale business handled customers in Taiwan, Korea, the Philippines, Indonesia, Malaysia, Thailand, Guam and the Middle East. John Short, President and

¹⁰ Berle, Gustav, *The Green Entrepreneur*, Liberty Hall Press, 1991.

¹¹ Interview with Kitty Clark, Esprit, August 1992.

¹² Scott, Mary and Rothman, Howard, “The Spirit of Esprit,” *Companies with a Conscience*.

¹³ *Ibid.*

Chief Operating Officer of the Far East Group explained that the five-year strategy for Esprit Asia was to: “maximize distribution possibilities in the region while continuing to support and grow our sourcing business,” implying a push for vertically-integrated retail business.¹⁴

Ecollection was housed within Esprit International. Described as an R&D or “Research and Discovery” department, not only did the *Ecollection* team design, manufacture, and market *Ecollection*, it also advised other parts of the Esprit organization on ways to incorporate more environmentally-benign methods into production processes. The department consisted of Lynda Grose as head designer, a design coordinator, four production personnel, and a production manager. Several other employees, including Dan Imhoff, the International Communications Manager, contributed to graphics, copy and advertising for the *Ecollection* line.

***Ecollection* Background**

In the fall of 1990, Lynda Grose began looking into possible alternatives to conventional cotton fabric production after reading an article on the Esprit bulletin board about the amount of pesticides, herbicides and fertilizers used in the cotton-weaving process. Joined by Dan Imhoff, who posted the article, the two began working with cotton mills and suppliers to produce garments in less harmful ways to the environment. “How you make something is just as important as the finished product, and Esprit has started a journey of self-examination,” explained Grose.¹⁵ The end result, introduced in March 1992, was *Ecollection*.

Ecollection, was a twenty-piece women’s clothing line (see **Exhibits D and E**) produced to minimize the “cradle-to-grave” impact on the environment through reduced packaging and “low-impact” (minimum toxic) dying methods. In addition, agricultural products use din this line were grown and processed without chemicals conventionally use din clothing manufacturing. Although the Division Heads of Esprit, who were responsible for producing and marketing the clothing, did not support the more complicated environmental line, the top echelon of Esprit believed in the basic philosophy captured in *Ecollection*. Susie Tompkins explained:

No matter how much time and money we donate to charitable causes, it just doesn’t matter if we don’t make the right product. It’s one thing to produce a tee-shirt which carries a message about social and environmental responsibility, and quite another to design and produce a shirt which, because of the way it is manufactured, is making a difference.¹⁶

Gross and Imhoff used this “cradle-to-grave” life-cycle analysis to tract the environmental effects of the raw materials and processes used to manufacture clothing. Eventually, they presented the concept of an *Ecollection*-type line to Esprit’s management. Realizing that none of the other divisions would risk the downside potential of an experimental clothing business on their bottom line, Peter Buckley, President of Esprit International at the time, decided that his Division would pick up the line. “Of course price is going to be an issue, but that’s not what this line is all about,” Buckley

¹⁴ *Esprit International Newsletter*, Volume 11, July 1992.

¹⁵ Scott, Mary and Rothman, Howard, “The Spirit of Esprit,” *Companies with a Conscience*.

¹⁶ From Esprit International press release, 1992

explained. Although the product line would operate at a loss at first, Buckley believed the technical knowledge gained from producing environmentally-sensitive clothing would give Esprit a sustainable competitive advantage over its competitors in the long run.

The original department name for the *Ecollection* team was “R&D”. This department became “an incubator for individuals” with similar social and environmental missions. “*Ecollection* was and continues to be a bottom-up strategy at Esprit,” said Kitty Clark, Production Manager for *Ecollection*.¹⁷ The function of the *Ecollection* department was three-fold:

- a) To be a laboratory for testing new ideas
- b) To act as a conduit to move research applications to the main clothing line
- c) To supply a marketable product that would increase public demand for well-designed products.

Clothing Manufacturing Process

The Conventional Production Method Using Cotton

Cotton was grown on large farms in semi-arid climates around the world. Chemical fertilizers were periodically sprayed onto the crops to add nutrients to the soil so that higher, more consistent yields could be harvested. Chemical pesticides were also sprayed onto the cotton to prevent insects from feeding on the plants and reducing the crop yield per acre. Prior to being picked, the cotton plants were defoliated using chemical herbicides to more readily separate the boll (the pod in which fibers grow) from the rest of the plant. The cotton was then harvested using mechanized strippers and shipped to cotton mills for processing. The chemicals used in the growing process mixed with streams, lakes, and underground water supplies, creating what was known as “non-point source pollutant run-off” that contaminated drinking water supplies.

At the mill, the cotton was sent through a gin, which cleaned and separated the fluffy fibrous material from cotton seeds, and compressed it into 500 pound bales. Then, the cotton was scoured and oiled before being spun into the desired thread weight, and the thread woven into cloth. Petroleum-based paraffin was used in the machinery to keep the metal parts lubricated. The cotton was cleaned with chlorine bleach and other chemicals to remove any imperfections that might have made the fabric rough, and gave the cotton fabric a much brighter white finish. Next, the cloth was dyed and run through a shrinkage process using resins such as formaldehyde that gave the cloth permanent press characteristics and lessened its propensity to wrinkle. The chemicals chlorine and formaldehyde were both hazardous substances monitored by the U.S. Environmental Protection Agency.

If the fabric was to be any color but white, it needed to be dyed. The conventional dyeing process soaked the cloth, either piecemeal or in a batch process, in a bath of dye. Heavy metals, or mordants, were used to create a chemical reaction that “fixes” the dye to the cloth. To avoid “fugitive color, or color that fades with washing or sun exposure, chemical dyes were used instead of natural dyes. Typically, approximately 35% of the

¹⁷ Interview with Kitty Clark, Esprit, August 1992.

dyes and mordants used in the process were never absorbed by the cloth, and were disposed of as toxic waste.¹⁸ The dyed fabric was sold in bulk to a manufacturer, where it was cut and sewn into patterns. Finally, electroplated metal clasps, fasteners, zippers, and buttons were attached to the garments. While electroplated metals had a shiny, rustproof surface, their production generated sludge waste which needed to be disposed of in specially-lined landfills.

The Ecollection Cotton Method

Through *Ecollection*, Esprit experimented with approaches to manufacturing cotton clothing that would create fewer negative environmental impacts, while still maintaining the quality and integrity of the final product (see **Exhibit F**). The organic and naturally-colored cotton markets supplied the first step in this process. The term “organic cotton” defined a process in which cotton was grown without using any chemical substances, such as fertilizers or pesticides, which could contribute to non-point source pollutant runoff in groundwater, streams, or lakes. Naturally-colored cotton was a specially-bred strain of cotton that produced colored fibers on the stem, so the dying process was eliminated. Rather than fading, the color of the fabric deepened and intensified with each washing. So far, only off-white, green, and reddish brown naturally-colored cottons were available, although mauve and blue strains were currently being developed.¹⁹

Before batch processing organic cotton at the mill, all machinery was cleaned to make sure that chemicals used during the conventional production of cloth were removed. This entailed sending cotton through the mill to clean the machines, and discarding the used cotton at the end of the process. Fabrics were not treated with chlorine bleach or formaldehyde resins, and as a result, were not as bright and wrinkle-free as conventional cotton. Also, low-impact, vegetable, or natural dyes were used as much as possible to color the organic cotton, rather than highly toxic dyes. Esprit tried to maximize the “fixation” rate of the dye to the cloth to minimize any waste streams. The process used to color *Ecollection* garments saved approximately 60% more water, used 50% less electricity, and kept 80% more dye from the effluent. Also, special non-rusting metal alloys replaced electroplated snaps and zippers.

Defining the Environmental Cost

The *Ecollection* philosophy asserted that the price of a garment should reflect all hidden environmental or avoided costs within the manufacturing and production process. In traditional cotton production, these costs included non-point source runoff and large amounts of hazardous substances produced from normal bleaching and dying processes that were discarded as toxic wastes. The public health risks and environmental degradation caused by these pollutants should have been fully integrated into the price that consumers paid for a product, and not borne by society as a whole. Esprit’s Grose believed that “most products are being subsidized by the environment.”²⁰

In *Ecollection*, however, the use of organic cotton increased production costs but avoided the “social” cost of non-point source runoff. A consumer education program incorporated as part of the *Ecollection* promotion attempted to relay this type of information to

¹⁸ Interview with Carol D’Arcunte, Color Portfolio, June 11, 1992.

¹⁹ Logsdon, Gene, Natural Clothing Greens Up the Industry.” *In Business*, Sept/Oct 1991, pp. 20-23.

²⁰ Ibid.

customers. In addition to buying an *Ecollection* shirt or pair of pants, the buyer needed to realize that part of the price she or he paid was the cost of reducing toxic emissions or preserving a rainforest ecosystem. According to Grose, “Everything would be for nothing if we were not able to explain this added value to the customer.”²¹

Ecollection Supply Costs

On average, *Ecollection* cost between 30% and 100% more to produce than Esprit’s main line of clothes. One reason was that the fabrics and materials used were new to the marketplace and tended to be more expensive. For instance, in 1992, organic cotton sold for \$1 to \$1.50 per pound – nearly double the market price for cotton grown with fertilizers and pesticides.²² The organic production process was more costly because it was labor intensive, utilizing natural compost as fertilizer and manual labor for weeding. Also, organic and naturally-colored cotton fields did not have the harvesting yields comparable to their conventional counterparts, averaging up to a third less cotton per acre.²³

The rush for “green” clothing caused demand for organic and naturally-colored cotton to exceed the supply. For instance, only the U.S. had established a program to certify that cotton had been organically grown. Although the acreage dedicated to growing organic cotton quadrupled in Arizona and Tennessee, and tripled in California and Texas, it was unlikely that supply would catch up with demand in the near future. Naturally-colored cotton was an even tighter market as only 750,000 pounds were produced in 1991. It was very risky for clothing manufacturers to commit to using naturally-colored cotton, due to the risk of low yields, weather-related problems, or other supply disruptions that inhibited the viability of long term supply contracts.²⁴

“One of the problems we faced early on was that we were trying to create both supply and demand for these products and methods at the same time,”²⁵ explained Lynda Grose. In response to this, Esprit sponsored an organic cotton conference in June of 1992 to help build the organic cotton market. Farmers, designers, mill operators, and retailers were brought together to resolve barriers inhibiting expansion of the organic cotton markets. Esprit continued to sponsor these types of conferences through the *Ecollection* program.

Increased Production Costs

Ecollection manufacturing methods also changed the cost of the product. Natural and organic cottons were segmented from the rest of the supply, and the machines were cleaned of any chemicals before the cotton was woven. As there were currently no cotton mills dedicated solely to natural or organic cotton, small batch production set-up costs drove up the manufacturing costs. Other production methods for *Ecollection*, however, lowered the end-product cost. For instance, because no bleaches or formaldehyde resins were used, toxic waste disposal costs were reduced.

Defining the “Green” Consumer

²¹ Ibid.

²² Riggle, David, “Widening the Market for Green Cotton Clothing,” *In Business*, Sept 1992, pp. 22-24.

²³ Pendleton, Scott, “Levi’s Makes Jeans of Different Color Using a Naturally Brown Cotton Fibre,” *Christian Science Monitor*, November 27, 1991, p. 7.

²⁴ Interview with Will Allen, California Institute of Rural Studies, June 1992.

²⁵ Interview with Lynda Grose, Esprit, July 1992.

According to a 1992 survey published by The Roper Organization, about thirty percent of Americans considered themselves “active environmentalists”, while another fifty-two percent said they were “sympathetic to environmental concerns,” but were not activists (see **Exhibit G**). Nearly two-thirds of the people surveyed believed that economic development and protection of the environment could be attained simultaneously, while only one quarter believed a choice between the two goals must be made. Most Americans were “conservationists” rather than “preservationists” who believed that the natural environment could be protected even while natural resources were used for the benefit of people and the economy (see **Exhibit H**).²⁶

Just how much extra customers were willing to pay for more environmentally-benign products was the subject of numerous surveys. While most consumers said they preferred to purchase environmentally-safe products, they were somewhat reluctant to make the personal financial sacrifices necessary to ensure these products were available. According to a 1990 Roper Organization survey, on average, Americans said they would only pay a 6.6% higher prices for environmentally-friendly products. Furthermore, this number was somewhat skewed by a small number of very environmentally-committed individuals, called “greenback greens”,²⁷ who said they would pay an even higher “environmental premium”. In another survey conducted by the J. Walter Thompson Company, 82% of those surveyed said they would pay an extra five percent or more for “environmentally-friendly” products.²⁸

Companies also had to consider how to promote the environmental qualities of their products. Persuasive marketing programs had to communicate the environmental benefits of the product in a fair and honest manner so that consumers could justify any price premium. Polls revealed that consumers were very skeptical of industry’s commitment to environmental cleanup and pollution prevention. While most people considered environmental labeling on products as important, only about fifteen percent found these environmental claims as “extremely or very believable.” In the J. Walter Thompson survey, approximately 64% of the respondents said they were less likely to buy from a company with a poor environmental record, and 27% said they had recently boycotted a product because of such a record. According to a senior marketing research director at J. Walter Thompson Company, “One of the greatest disservices you can do is market environmental claims irresponsibly ... because it will come back to haunt you, even if these’s a short-term gain.”²⁹

Characterizing the Ecollection Consumer

In order to get an idea of the attitudes and potential behavior of its own customers towards an “environmentally-friendly” clothing line, Esprit performed a market survey of its main line customers in the Netherlands. From a file containing around 125,000 customers’ names, a sample of 400 women were selected at random and mailed a series of questions. The objective of the questionnaire was to find out what the Esprit Netherlands customer generally thought about environmental issues, and the extent to

²⁶ “Natural Resource Conservation: Where Environmentalism is Headed in the 1990’s,” The Roper Organization, June 1992, p IV.

²⁷ “The Environment: Public Attitudes and Individual Behavior,” The Roper Organization, July 1990, p. 63.

²⁸ Levin, Gary, “Consumers Turning Green,” *Advertising Age*, November 1990, p. 74.

²⁹ *Ibid.*, p. 74.

which their fashion-buying behavior was influenced by environmental considerations. The response rate of returned surveys was slightly over 28%.

Although the respondents felt a general concern for the environment, the degree to which these customers were willing to act on their concerns was mixed. A sample of the results of the survey are shown in **Exhibit I**. As was seen in numerous other surveys, consumers were very skeptical of a company's environmental claims about their own products. Many of Esprit's customers felt that companies that advertised environmental policies were doing so mainly for reasons of popularity, and usually were not completely honest in their claims. The degree of this skepticism generally increased with the survey respondent's age.

At the end of the questionnaire, the respondents were given an opportunity to make comments on Esprit's campaign to encourage environmental awareness through its product lines. Among the comments were the following:

- *"It's good that Esprit wants to help the environment, but it must not be done simply to sell more clothes."*
- *"A great campaign by Esprit! So I hope it's not just a publicity stunt, but a serious attempt to contribute to a cleaner environment."*
- *"Good for Esprit: thinking about the environment, but above all acting!"*

The Esprit Marketing Strategy

In February of 1992, Susie Tompkin's line of go-to-work clothing targeted for the 25-and-over crowd was presented in a showroom in New York City. The mid-priced clothing line was introduced by Reverend Cecil Williams, minister of San Francisco's Glide Memorial Church, who, after leading a chorus of "Amen", dived into a sermon about social justice. Tompkins, felling that her own industry is sometimes too shallow, explained the reasoning behind their approach to marketing the new line: "We are attempting to inject some reality into the fashion world, and I want to share that with buyers and journalists."³⁰

Historically, the company's promotions have centered more on images of "enlightened" lifestyles and social issues rather than on directly promoting the products themselves. For instance, in 1991 a television campaign asked Esprit customers, "If you could change the world, what would you do?" The ads, which included a variety of controversial answers, incited a nationwide response that included a threatened boycott of Esprit products by Pro-life groups. In a surprise move demonstrating the effect of recessionary times on Esprit, the company decided to pull the ad campaign. "If we had all of our own stores it would be one thing," says Tompkins. "But, we are in department stores where business is less than great right now. In terms of advertising, we have to be softer."³¹ Esprit continued to try to broaden its product scope market appeal by introducing new lines of clothing for more mature buyers.

The Ecollection Strategy

³⁰ Scott, Mary and Rothman, Howard, "The Spirit of Esprit," *Companies with a Conscience*.

³¹ Scott, Mary and Rothman, Howard, "The Spirit of Esprit," *Companies with a Conscience*.

The *Ecollection* team's efforts moved Esprit away from "cause-related marketing," such as *Save the Planet* t-shirts, to selling products that actually reduced environmental impact in their production and marketing operations. Rather than spending money to advertise *Ecollection*, the team focused on point-of-sale consumer education instead. Retail managers and salespeople were encouraged to read a three-inch thick manual on the facts and figures behind the *Ecollection* philosophy so that consumers' questions could be answered completely and honestly. Hang tags (printed on recycled paper using soy-based inks) attached to each piece of clothing explained various ecologically-beneficial features of the item, and discussed social and environmental topics such as biodiversity, greenhouse warming, and ozone depletion. The information encouraged social and environmental activism on the part of each individual. Heidi Julavits, part of the *Ecollection* team stated, "We feel that our customers must understand what they're buying – this not only justifies the slightly higher cost, but informs people as to how their buying habits can have an effect on the environment."³²

Without spending a dime on advertising, the company received more print media coverage for *Ecollection* than any other new line introduced by Esprit. Articles appeared in such publications as *Women's Wear Daily*, *Elle*, *Dallas Morning News*, and *Business and the Environment*. *Ecollection* also attempted to sell fashion with a conscience in that, rather than producing the usual five collections a year to meet the demands of its customers, *Ecollection* only produced two. This allowed the necessary time for research, and perhaps more importantly, says Grose, "it will help us move away from conspicuous consumption. These clothes are meant to be something you can still wear next season."³³

Ecollection garments were sold wholesale at slightly above production cost. If the usual retail mark-up were applied, the clothes would be too expensive for their regular customers. Because the main function of the project was research and discovery into environmental methods, Esprit's International Division subsidized the line by an amount equal to the *Ecollection* department's overhead costs. **Exhibit J** shows a price comparison between *Ecollection* items and similar garments on Esprit's main line.

Competitive Forces

The parameters of the "green" clothing market were determined by dividing consumers along ideologies as defined in a Roper Organization survey in 1990 (see **Exhibit K**). The greatest competition for market share arose in the "sprouts" category, where consumers weighed the product's style and fashion against its environmental cost premium. *Ecollection* relied on the strengths of its consumer education program to compete against labels such as the Limited, Benetton, and The Gap, that provided low-cost clothing to fashion-conscious consumers. New entrants into the fast-paced fashion marketplace continually tested consumer's loyalty to the Esprit label.

Other competitors included historic rivals who have also entered the "environmentally-friendly" clothing market. Levi Strauss offered a line of denim made from naturally-colored cotton.³⁴ Vanity Fair (VF) Corporation, the world's largest publicly-owned apparel maker, created a new subsidiary called "O-Wear" that began marketing organic

³² Interview with Heidi Julavits, Esprit Assistant Communications Manager, August 1992

³³ Worthington, Christa, "Eco-Style: Fashion Banks on Green Ethics with Esprit's *Ecollection*," *Elle*, **date** pp 231-232

³⁴ "Natural Clothing Greens Up the Cotton Industry," *In Business*, September/October 1991, p. 21.

cotton clothing through existing distribution networks in the fall of 1992.³⁵ Grose felt that these competitors' marketing strategies were different from the one being adopted by Esprit. "Many of these companies are focusing on just one aspect, such as organic cotton, but they're not looking at the bigger picture. They're not trying to incorporate these features into their main lines."³⁶ Esprit's main line also competed with *Ecollection*, cannibalizing some sales and frustrating Esprit's U.S. marketing group.

Determining a Marketing Strategy for Ecollection

Grose began the meeting by asking Kitty Clark, the Production Manager for *Ecollection*, to review the estimated sales results from the Spring 1992 line, *Ecollection's* first season. Although *Ecollection* sales comprised only about one percent of Esprit's overall figures, the first season results were encouraging:

Sales volume in Asia surpassed all expectations. The Hong Kong division sold 90% of its initial shipment of *Ecollection* clothes within the first two weeks. Although environmentalism was becoming a major issue throughout the Pacific Rim, and the market for environmental clothing was expected to expand with it, Esprit believed that buyers purchased the clothing line because they liked the design rather than the environmental attributes of the garments.

The European market performed well as expected. The product line was popular among the burgeoning number of environmentally-aware consumers in northern Europe (e.g. Germany and Denmark), as well as with Parisian buyers.

Esprit USA's sales of *Ecollection* were somewhat disappointing. Poor results were attributed to the economic recession, the limited distribution network within the United States (*Ecollection* was sold mostly through company-owned stores), and American consumer's general skepticism of companies' environmental claims.

Esprit International subsidized the spring line by approximately \$1 million, which was "not a material dent to Esprit's bottom line."³⁷ Buckley's division absorbed the design team's salaries, educational material expenses, and distribution costs. These costs were written off as research and development costs rather than passed on to customers.

Finally, Grose showed the designs that had been drawn up for *Ecollection's* Fall 1993 line. The new fall designs continued to utilize environmentally-benign production methods, and brought in new fabrics such as recycled wool. Grose and Imhoff knew that however fantastic the designs for the fall line were, the operations review committee was going to be focusing on bottom line results and future directions for *Ecollection*.

The Alternatives

After reviewing *Ecollection's* first season results, the group came up with a list of possible marketing strategies for *Ecollection*. Then, in turn, they analyzed the advantages and disadvantages of adopting each strategy in preparation for Birgit Kelley's next Division Head meeting. The marketing strategy alternatives were as follows:

³⁵ Interview with Chris Vicars, *Vanity Fair*, June 16, 1992.

³⁶ Interview with Lynda Grose, Esprit, July 1992.

³⁷ Interview with Kitty Clark, *Ecollection* Department, August 1992.

- 1) ***Status quo: maintain Ecollection as a subsidized R & D line.*** Esprit would continue to research materials and processes that minimize environmental impacts, market the *Ecollection* line using consumer education, and transfer successful *Ecollection* ideas over to Esprit's main line as they became economically feasible.
- 2) ***Develop Ecollection as a stand alone, non-subsidized clothing line.*** Marketing the line specifically to an environmentally-conscious audience that has the resources to pay high "environmental premiums" would allow Esprit International to discontinue subsidizing *Ecollection*, yet reap the benefits of its research efforts.
- 3) ***Integrate Ecollection concepts into Esprit's main line and phase out Ecollection Department.*** Research and development of environmentally-benign processes and materials would shift back to Esprit's separate regional divisions, where market incentives would drive investments made for environmental research & development.
- 4) ***Expand Ecollection sales through mail order catalogues.*** Esprit has a successful history of marketing through mail order catalogues. An *Ecollection* mail order catalogue would allow Esprit to maintain control of its prices, develop a closely identified consumer group loyal to *Ecollection* products, and better market its consumer education programs.

Exhibit A: Esprit Financial Status: A Chronology

1968 – Beginning of “Plain Jane” clothes, made by Susie Tompkins and Jane Tise.

1976 – Doug and Susie Tompkins buyout Plain Jane’s, change name to Esprit de Corp. Estimated value: \$80 million.

1979 – Esprit sales reach @120 million from department store and catalog sales.

1984 – Worldwide sales reach an estimated \$800million. First Esprit super store opens in Los Angeles, an 18,000 square foot complex costing \$15 million. Fifteen Stores in eight cities under construction. Total cost of \$50 million

1986 – Worldwide sales reach \$1.2 billion. Esprit now in 34 countries. Earnings of \$62 million.

1987 – Earnings plummet to \$10 million. US sales remain flat at \$412 million. Franchising of Esprit stores begins, 38 total worldwide.

1989 – After divorce of Doug and Susie Tompkins, Esprit put on auctioning block.

1990 – Susie Tomkins (with venture capitalist Issac Stein and Rockport shoes founder Bruce Katz) engineer leveraged buyout for \$240 million.

1991 – Sales remain at \$350 million for second year in a row.

Sources: Business Week, Working Woman, and Forbes)

Exhibit B: Esprit Corporate Structure



Exhibit C: Esprit Worldwide Distribution

Country	Retail Stores	Franchise Stores	Shop-in-Shops
Australia	19	0	36
Austria	4	0	2
Belgium	2	0	0
Netherlands	1	0	0
Canada	14	0	18
Chile	6	0	0
Colombia	7	0	0
Denmark	4	0	6
Finland	0	0	7
France	3	0	0
Germany	14	15	0
Hong Kong	13	0	5
Indonesia	6	0	4
Korea	5	0	15
Malaysia	1	0	4
Mexico	7	0	0
New Zealand	9	0	0
Philippines	4	0	3
Singapore	4	0	1
Sweden	1	0	0
Switzerland	8	0	0
Taiwan	2	1	8
Thailand	1	0	15
United Kingdom	2	0	0
United States	16	14	95

(Source: Kitty Clark, Production Manager, Ecollection)

Exhibit D: Items in Spring 1992 Collection

SPRING 1992 ECOLLECTION		
Design	Wholesale Price (US\$)	Retail Price (US\$)
Denim Jacket	31.50	80.00
Denim Pant	17.00	52.00
Denim Short	15.50	46.00
Denim Overall	24.00	65.00
Denim Shortall	22.00	55.00
Linen Blazer	77.00	150.00
Linen Pant	39.50	68.00
Linen Short	32.00	54.00
Vegetable Dye Shirt	45.50	70.00
Poplin Logo Shirt	16.00	48.00
Glass Button Shirt	15.00	48.00
Striped T-Shirt	17.50	38.00
Logo T-Shirt	10.50	30.00
Tank Top	8.50	26.00
Espadrilles	7.00	20.00
Denim Tote Bag	9.50	24.00
Ixtle Fibre Shoe Bag	3.00	5.00
Bead Necklace	11.00	20.00
Bead Bracelet	6.00	15.00
Strawberry Button Card	5.00	12.00
Snow Drop Button Card	5.00	12.00
Wheel Button Card	5.00	12.00
Daisy Button Card	5.00	12.00
Natural Organic Sock	3.00	6.00
Marled Sock	3.00	6.00

(Source: Ecollection Business Development, Esprit International)

Exhibit E: The Ecollection Design

eco-

The ecologically friendly trouser-suit from Esprit's new Ecollection. Tagua nut buttons on unbleached, undyed linen that's enzyme-washed for softness. Blazer, \$150; matching trousers, \$68. Both to order from Esprit Los Angeles, (213) 659-7575. Bone choker, Rancho Loco.



Exhibit F: Additives Used In Manufacturing Cotton Clothing

Process	Conventional Method	Ecollection Method
Growing Cotton	Pesticides, Fertilizers	Composting, Weeding
Defoliation	Chemical Defoliant	Hand Labor
Ginning	Chemical Residue	Clean out Machines
Spinning/Weaving	Untreated	Water-based Tint
Cleaning	Chlorine Bleach	Citrus Scour
Permanent Pressing	Formaldehyde	Untreated
Dyeing	Synthetic Dyes, Mordant (Heavy Metal)	Natural Dyes or Cold Pad Batch Method
Adding Fasteners	Plastic Buttons, Electroplated Metals	Tagua Nut Buttons, Rust Free Alloys

Exhibit G: Varying Degrees of Environmentalism

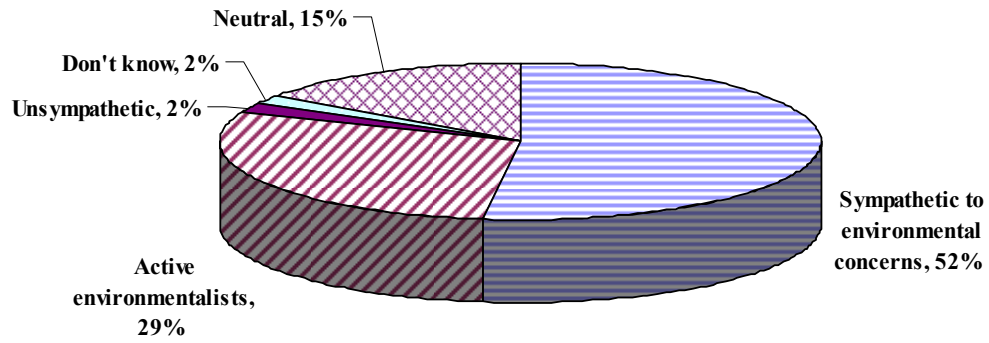
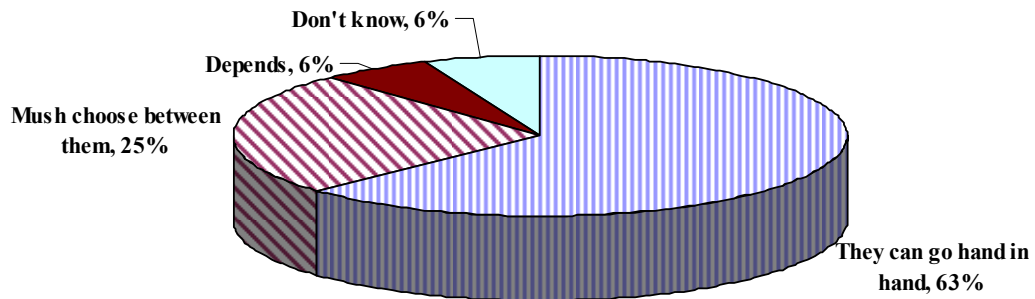


Exhibit H: The Relationship Between Environmental Protection and Economic Development



(Source: Roper Organization, Where Environmentalism is Headed in the 1990s, 1992.)

Exhibit I: Esprit Market Survey

Sample of survey questions and results:

	Strongly Agree			Strongly Disagree			
	1	2	3	4	5		
a. Concern for the environment is a fashionable issue.	14%	24%	17%	17%	23%		
b. I regard myself as someone who thinks environmentally.	14%	51%	30%	5%	0%		
c. I regard myself as someone who acts environmentally.	7%	41%	41%	9%	1%		
d. I am quite willing to pay more for products to get clean industries.	38%	41%	13%	4%	5%		
e. If other people are not prepared to make sacrifices for the environment, I am not prepared to pay for it.	12%	19%	20%	28%	3%		
	Very Important				Not Important		
f. What is important to you when buying products?	1	2	3	4	5	6	7
- appearance of the product	38%	27%	12%	11%	10%	1%	2%
- price of the product	32%	29%	29%	14%	2%	3%	2%
- environmental aspects of the product	14%	26%	23%	21%	4%	5%	6%
- quality of the product	51%	33%	9%	5%	-	1%	-
g. Which are key factors in creating a good company image?	1	2	3	4	5		
- consistent product quality	78%	20%	2%	-	-		
- good customer service	66%	26%	5%	2%	-		
- concern for the environment	28%	42%	24%	5%	1%		
- honesty in advertising	41%	23%	26%	8%	2%		

Exhibit J: Costs for Esprit's Main Line and Ecollection

PRICE COMPARISON DATA FOR ESPRIT'S MAIN LINE vs. ECOLLECTION					
STYLE	COST DIFFERENTIAL ¹	MAIN LINE		ECOLLECTION	
		Wholesale ²	Retail ³	Wholesale ⁴	Retail
Logo T-shirt	45%	\$10.00	\$20.00	\$13.00	\$26.00
Skinny Rib Tank Top	52%	\$10.00	\$22.00	\$11.00	\$22.00
Relaxed Fit Jean	27%	\$24.00	\$50.00	\$21.50	\$43.00
Baggy Jean	49%	\$27.00	\$56.00	\$29.00	\$58.00
Textured Crew Sweater	49%	\$24.00	\$48.00	\$38.50	\$77.00

(Source: Ecollection Business Department, Esprit International.)

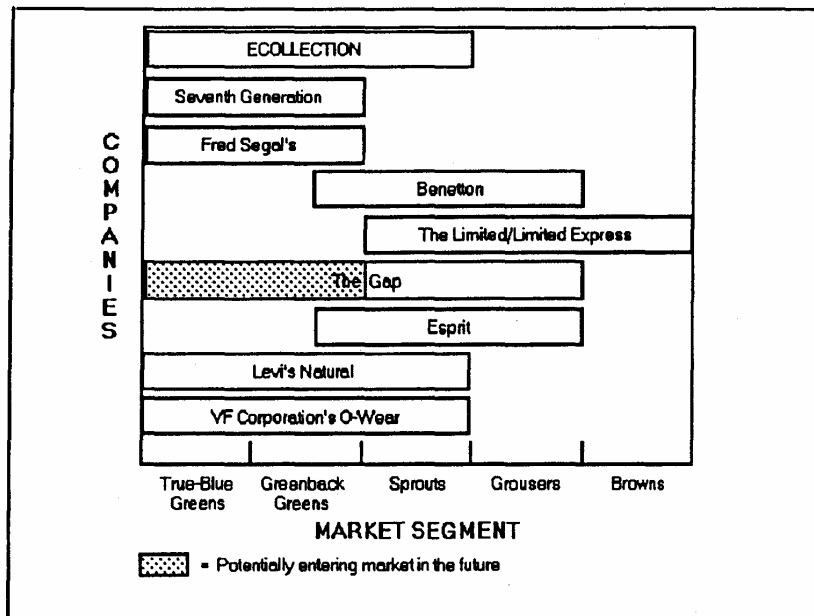
¹ Cost Differential – percent increase in production costs using Ecollection method vs. conventional method

² Main Line Wholesale Price = Production Cost + Overhead Cost

³ Prices shown for the purposes of this case only and may not reflect actual values

⁴ Ecollection Wholesale Price = Production Cost

Exhibit K: Ecollection Competition



ENVIRONMENTAL IDEOLOGIES

- The “**True-Blue Greens**” (20% of all Americans – 60% are women) are the environmental leaders and activists. They are very well-educated, hold good jobs, and are rather affluent.

- The “**Greenback Greens**” (5% of total – 48% are women) are the environmental spenders – people willing to pay to improve the environment, but with little time to get involved themselves. Also well-educated and affluent, they are the youngest of all groups (in their thirties, on average).

- The “**Sprouts**” (31% of total – 52% are women) are the swing group whose attitudes and behavior can cut both ways, either pro- or anti-environment. They are a portrait of middle America.

- The “**Grouzers**” (9% of total – 56% are women) are not much involved in environmental activities mainly because they think others are not going to do much either. They are less affluent and less well educated than the average American.

- The “**Basic Browns**” (35% of total – 48% are women) are the most apathetic group because they think indifference to the environment is mainstream. They are the most disadvantaged financially, have the lowest level of education, and are concentrated in the South.

(Sources: Roper Organization, The Environment: Public Attitudes and Individual Behavior, 1990 and Roper Organization, Environmental Behavior, North America, 1992.)