CEMP: Corporate Environmental Program
The University of Michigan

Sustainable Enterprise Program
A program of the World Resources Institute

DEJA SHOE (A) and (B):
Teaching Note

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, WRI is available at:www.bellinnovation.org

Deja Shoe (A) contains a very rich description of the challenges and opportunities of environmental entrepreneurship. The case traces the growth of Deja, Inc., a start-up company dedicated to producing footwear from recycled or sustainably harvested materials, from the vision of founder Julie Lewis, through the entry and financing strategy for the company, to the strategic and operational complexities of positioning an environmental product.

Deja Shoe (B) focuses primarily on the company's product launch and market results. The company tried to fast-track growth by quickly entering mainstream markets with the support of venture capitalists. However, the company's design and operations were not moving at the same speed. After the launch of the spring 93 line, the company moved quickly to align product design and development to be consistent with the timetables of investors. Although management was closing the gap, the effort was too little, too late to meet the projections previously established with the venture capitalists.

*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.*

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.

The cases are descriptive enough to allow several possible discussion points to emerge. However, there are three primary discussion themes that provide substantial insight into this experiment in environmental entrepreneurship. The three primary themes are (1) evaluation of Deja's business model and entry strategy, including a discussion of the alignment among all components of the strategy; (2) identification of potential sources of sustainable competitive advantage for Deja in the footwear industry; and (3) lessons for environmental entrepreneurs.

The accompanying *video tape* provides an excellent supplement to the cases. It is recommended that the first two segments of the tape ("Entrepreneurship" and "Entry Strategy" -- running time about 10 minutes) be shown at the start of the session, as an optional complement to the (A) case. The remaining four segments of the tape (running time about 10 minutes) can then be shown at the end as a complement to the debrief and lessons learned.

Teaching Plan	**Total time 80 minutes**
1. Distribution of (A) Case and Discussion Questions	Two to five days before class
2. Video (first two segments)	10 minutes
3. Discussion: Strategy and Competitive Advantage	30 minutes
4. Distribution of (B) Case and Debrief	10 minutes
5. Discussion: Lessons for Green Entrepreneurs	20 minutes
6. Video (last four segments)	10 minutes

1. Distribution of Case and Discussion Questions

Deja Shoe (A) should be distributed to students a few days before class to allow ample time for reading and processing its contents. The following discussion questions are recommended to aid the students in preparation (see the *Appendix* for overhead):

- What is your evaluation of Deja's environmental business strategy?
- What is their core competence and competitive advantage?
- Can they sustain it?

The instructor may choose to organize students into small groups to meet before the class session to consider the discussion questions. Small groups have been effective means for ensuring that students are adequately "primed" before class, as each student will enter the class with a common baseline understanding of the case**.** *Note: Only Deja Shoe (A) should be distributed before class.*

2. Video

After introducing the broad objectives for the session, the instructor may choose to show the first two segments of the Deja video ("Entrepreneurship" and "Entry Strategy"). These two segments, which take about 10 minutes, complement the (A) case in content, providing history and background on the case. More importantly, these segments allow students to get a look at the two key players in the company (Julie Lewis and Bruce MacGregor). Having some sense of their backgrounds and personalities is useful later in the discussion, given their obvious differences. Showing these segments is optional from a content point of view if the session is short on time.

3. Discussion: Strategy Evaluation and Competitive Advantage

Learning Objective: The focus of this discussion is to critically evaluate Deja's business strategy for entering the footwear industry. By the end of the discussion, students should have a clear concept of the various elements that constituted Deja Inc.'s strategy, as well as the elements that constituted a traditional footwear industry strategy. Also, students should realize that the business model for an environmental footwear company is more complex because it involves building competency not only in design and marketing (standard in the footwear industry) but also material development, procurement, and environmentalism. However, it should also become increasingly clear that the steep learning curve associated with the above might become a source of sustainable competitive advantage for the company, if it can only survive the start-up and venture capital funding stage.

Teaching Strategies: We have found it useful to begin the discussion by asking students to predict what they think will happen when the company goes to market with its first (spring 93) line of products. What will the customer reaction be? What will sales look like? Will the venture capitalists be happy? The instructor may allow students to huddle in small groups for a minute or two before beginning this discussion. The answer is usually that the product will not do very well because it is priced too high. This then enables the instructor to push the students toward a rather rigorous evaluation of all the components of the Deja business strategy and model. Questions the instructor might ask to help provoke this discussion include:

1. Who are Deja's competitors?
2. What is their core competency?
3. Does the athletic shoe business model hold in this segment?
4. Can you beat NIKE or even Timberland at their own game?
5. Are Deja's costs higher on every dimension?
6. Can Deja invent new hard-to-copy competencies that will secure them advantage?

Analysis: Strategies for traditional footwear industry companies are built around core competencies in design and marketing. Design and marketing are the two activities which most directly address consumer concerns for value, performance, and fashion. To a certain degree, project management skills are also needed. Because many links in the footwear industry value chain are outsourced -- manufacturing in Asia, materials procurement, etc. -- a competitor in the footwear industry must be able to manage the integration of these activities.

Adopting an environmental strategy adds several dimensions of complexity to a traditional footwear industry business model. An environmental footwear company founded on the principle of sustainable development requires a second competence: minimizing the ecological impact of all stages of the product life-cycle. The table below provides a quick contrast between the elements of Traditional Footwear Company strategies (e.g. NIKE, Timberland) and Deja's strategy.

Business Activity	Traditional Footwear Company	Deja, Inc.'s Option/Adoptions
Product Design	Done in U.S. headquarters	Contracted to outside designers
Product	Competes on value, performance, fashion	Green design - does not take into account traditional criteria - differentiates on environmentalism
Market Segment	Casual, Athletic	Casual, Athletic
Manufacturing	Far East, some Caribbean	Far East/ Close to source of recyclables
Materials Development	Uses off-the-shelf materials whose performance is understood	Must develop new materials that are environmentally benign; performance untested
Materials Procurement	Done by contract assembler	Procures recyclables and natural materials on four continents, develops material, ships to Far East

Business Activity	Traditional Footwear Company	Deja, Inc.'s Option/Adoptions
Promotion	Athletic: massive expenditures on high profile campaigns; Casual: small budget, niche advertising and Point-of-Purchase	Conducted through media focused on product concept and public relations; sales force
Distribution/Customer	Mainstream retailers and specialty athletic and boutique stores	Mainstream retailers, specialty athletic and boutique stores, green stores and green catalogs
Pricing/profitability	Athletic: high premiums for name brands = wide margins; casual: varies according to quality	High premiums - high costs = low margins
Capital Structure	Venture capital and equity	Venture capital/Environmental community: foundations, government grants, individuals
Environmental audit	N/A	Rigorous audit of environmental practices; has V.P. for Environmental Affairs
Take-back	N/A	Take-back infrastructure required for worn shoes; design for environment. Presents an added cost.

Let's step through some of the dimensions of the environmental footwear model. Whereas a traditional footwear company specs out a shoe and turns it over to the manufacturer to procure the materials laid out in the specifications, Deja, Inc. had to procure its own materials. The result was that the company was responsible for producing the specs, then sourcing recyclables or raw materials on three continents, overseeing their conversion to a recycled material and shipping the material to Asia in time to meet production schedules.

Materials selection was also problematic. In the traditional business model, the rubber for the soles, leather for the uppers and other materials were available off-the-shelf. Yet, because of the environmental damage inherent in the production or extraction of these materials, they were not available options for Deja, Inc. The company's model, therefore, included the creation and testing of new materials. MacGregor explained the rationale for developing new materials:

> The other thing that we realized is that, to a certain degree, we were designing and developing shoes with one hand tied behind our backs relative to the rest of the industry. We did not have the menu of materials to work from that everyone else could. But we couldn't just continue to go to market with canvass. The fact is, that 80-90% of the footwear that's sold in this country is leather. That's just reality. So we had to come out with a menu of materials.

Other aspects of the environmental footwear model included conducting internal environmental audits to reveal the amounts of energy consumed and waste produced by the company's activities (beyond those that must be done to comply with state and federal regulations). Additionally, the company formed partnerships with environmental organizations to build bridges between the two sectors. Finally, Deja, Inc. had a take-back infrastructure. When the shoe had been completely worn, the customer would send it back to the company. The company then had the added step of recycling it. The sustainable development model was pushed into all aspects of the business - even the shoe box in which Deja products were sold could be reconfigured and turned into a gift box bearing etchings of endangered species.

In the footwear industry, all of the above activities were unique to the Deja, Inc. model. Moreover, all of these activities substantially increased the burden on the start-up operation. During its three years in operation, Deja gained experience in managing for sustainable development. Costs were starting to come down as economies of scale came into play. The procurement cycle was becoming streamlined, meaning that factories in Asia were no longer becoming irritated at incurring expenses while remaining idle and waiting for the reprocessed materials to arrive. MacGregor contrasted the experience of strategically positioning and managing a traditional footwear company with managing Deja, Inc.:

> Let's take my Avia experience. What we did there was basically go to school on Reebok. Reebok was an existing aerobics company. We had also recognized that the existing players were not satisfying the female customers' demands for athletic footwear. We looked at aerobics which was the booming sport at the time and we said, "Who's there?" It's Reebok and they're seen as non-technical and fashion. Fine. We'll be technical. What we did was take advantage of a wave, but there was a lot of data and a lot of ways we could go to school on existing companies so that we weren't having to re-invent the learning curve.
>
> You compare that to Deja, and everything we did at Deja was a learning curve. Everything. Not just the marketing aspect which Avia didn't even have to go through, but also the whole manufacturing process [and] internal audits to make sure that we were operating in the most environmentally sound fashion. Those were all new hurdles that no one had ever tackled in the footwear business. I mean, we didn't have a VP of Marketing, we had a VP of Environmental Affairs. That's unique in itself.

These new skills, in materials development, procurement, and life-cycle design, might come to provide a basis for sustainable competitive advantage. However, if the start-up company was to have a chance, it would have to compensate for the higher costs needed to build these capabilities, with lower costs on some other dimensions. The only possible strategy element where Deja could potentially realize a near-term cost savings was in the area of promotion. Advertising was a big part of the cost structure for athletic shoe companies such as NIKE whereas Deja had been highly successful at leveraging the media to their advantage. A concerted effort to take advantage of media exposure for promotion purposes (a la the Body Shop) might, at least in part, offset the added cost burden of the other elements of Deja's strategy.

After students have thoroughly discussed the strategies used in the footwear industry, the instructor should return to their prediction concerning the outcome of Deja's spring '93 launch. Would the launch be successful? Would mainstream consumers be attracted to the Deja shoes? Such questions facilitate the transition to the next phase of analyzing Deja, Inc.

4. Distribution of B Case and Debrief

Instructors should distribute Deja Shoe (B) at this juncture; it explains the market's reaction to Deja's product launch. If instructors have more than the allocated time, students may review the three-page (B) case.

However, instructors may distribute the case for students to review at a later time and cover the case highlights by using the slide labeled "Deja Shoe (B): What Happened." in the *Appendix*.

5. Lessons for Green Entrepreneurs

Learning Objective: The objective of this phase of the discussion is to extract lessons from the Deja experience that are applicable to other environmental start-ups. Several key "lessons learned" flow from the earlier case discussion. These lessons are discussed below. The instructor can use the overhead slide labeled ADeja Shoe: "Lessons for Green Entrepreneurs" in the *Appendix* both to guide the discussion and summarize the key points at the end of the session.

Strategic Alignment

The complexity added by adopting a sustainable development strategy had serious implications for the company's cash position. Already weakened by slow sales, the company had to invest scarce financial resources in developing or procuring new materials. For instance, one substitute the company found for leather was vegetal leather, sourced from the Brazilian rainforest. Vegetal leather was acquired by indigenous peoples in Brazil through a sustainable extraction process similar to rubber tapping. As vice-president for research, Lewis was required to identify the existence of the material and ensure that it would perform in a shoe component. Besides management's time and the cost of testing, the activity absorbed financial resources - the material was substantially more expensive than animal leather.

Thus, the product strategy was at odds with the financing strategy. By adopting an experimentation and learning approach with the product (which might have been entirely justified), the company made it virtually impossible to achieve the aggressive sales and growth targets set by the venture capitalists. Furthermore, by targeting the mainstream market with a "green" product, the company began with another fundamental mismatch in its strategy. This suggests a key lesson: for green entrepreneurs to succeed, they must ensure that all the elements of the strategy align (see slide on "Strategic Alignment" in the *Appendix).* Internal inconsistency in the strategy spells doom.

Sequencing and Market Entry

The flat consumer reaction to Deja's products indicates that environmentalism is not in and of itself a point of differentiation in the mainstream footwear (and probably any other) market. MacGregor assessed the economic role of its core consumer in the footwear industry:

> Their environmental concern...is really a whole lifestyle issue for them. Everything they do -- all the decisions they make as a consumer or as a citizen -- is one way or another impacted by those environmental concerns. Green stores are certainly a rapidly emerging distribution segment in this country. But the bottom line is there may be 500 green stores around the country, but two or three Nordstrom stores by themselves probably sell two times what all those 500 green stores would sell in terms of footwear. It's a rapidly growing segment, but it's still a speck on the horizon.

The strategy the company adopted to sell Deja shoes to the 60% of the population that is environmentally aware was doomed to failure. If Deja had adopted a strategy by which the spring 93 line was able to compete strictly in the areas of value, performance, and fashion, then the company would have likely experienced much greater sell-through. Greater sell-through would have occurred because the company would not only have met or exceeded consumers' purchasing criteria, but also delivered the (additional) benefit of environmentalism.

It is noteworthy that sell-through did occur in the green store distribution channel. However, this trend is not surprising given the characteristics of consumers who shop in green stores. This consumer group, previously referred to as core environmentalists, makes purchasing decisions on environmental criteria primarily or to the exclusion of all other product attributes. When shopping for footwear, core environmentalists will sacrifice value, performance and fashion if the product is perceived to be more environmentally sustainable than existing products. Yet this segment of the consumer population is only 5% of the total. Deja's target consumers for the spring 93 line were only 5%, not 60% of the U.S. population. Deja's management could have chosen a more modest growth path through green stores, to allow the company to test consumer acceptance of its environmental products. This option would have allowed the company to incrementally improve Deja shoe's value, performance and fashion attributes with a sympathetic customer base.

Timing

By jumping immediately to the mainstream market, with venture capital financing, Deja put tremendous pressure on itself to "get it right the first time." They should have recognized that they lacked experience or capability in actually bringing such a mainstream shoe to market. Product failure followed by learning and redesign was almost inevitable. A slower, more deliberate strategy would have enabled Deja to "get the concept and process right" before taking it mainstream. In short, they should have made sure that the business concept was clear and the necessary competency base more fully developed before going "mainstream."

Make News

The voluminous amounts of press that Deja generated resulted in enormous exposure for the young company. Given that advertising is a substantial cost in the athletic shoe industry, Deja should gain a cost advantage over athletic shoe producers or offset higher production costs of the Deja shoe by substituting press coverage for more traditional marketing strategies.

The Body Shop successfully leveraged the media for marketing the company's skin and hair products. In the highly competitive cosmetics industry, major companies incur huge expenses developing attractive packaging and buying time in media outlets. However, the Body Shop's CEO, Anita Roddick, who was successful in promoting the company's socially-responsible philosophy to the public through print media and company-sponsored campaigns, frequently boasts that the company spends $0 on advertising.

Although environmentalism fails as a principal purchasing criterion, the media cannot resist covering environmental companies. MacGregor has explained some of the nuances of leveraging the media for marketing purposes. While the media helps to build name recognition for some products, it also produces the "spotlight effect". In other words, media attention can bring unprecedented scrutiny into a company's operations to ensure that a company meets its environmental or other social benefit claims. Companies that pose as environmental but fail to uphold their values in their production and operations are likely to wither under the media spotlight. Companies thus exposed are accused of "greenwashing" their businesses and are likely to attract the attention or ire of government regulators or consumer groups.

MacGregor also noted that media coverage may be hard to direct. Whereas a television commercial can contain carefully crafted messages directed at specific market segments, the contents of news coverage is much more difficult to control. The lack of control over the message can be offset, in MacGregor's opinion, by the increased authenticity bestowed by a third party. In other words, consumers are often skeptical of a company's claims of product performance and are more inclined to believe reports originating from a less-biased media.

Financing

Had Deja's management recognized that their start-up strategy and spring 93 product line were more suited to core environmentalists than mainstream markets, an alternative financing strategy would have been pursued. Start-up green businesses that target core environmentalists have different financial needs than start-up green businesses that target conveniently green (mainstream) consumers. When venture capitalists invest in start-ups, they typically look for rapid business growth during the first few years of operation. Their capital has an opportunity cost, given the wide portfolio of projects from which they can choose. Start-up investments which are not hitting projected revenue levels are siphoning cash away from other investment opportunities that could produce returns earlier.

Management's misjudgment of the market size for Deja products led to the team's choosing an inappropriate finance strategy. Venture capitalists financed Deja because the potential market for its products was thought to be 60% of the population. Their support remained contingent upon hitting sales figures consistent with penetrating a fixed percentage of that broad market. Yet, because the actual market size was closer to 5%, sales figures did not approach the targets set by the investors and the management team.

Would venture capitalists have invested in Deja, Inc. if management were aware that its first generation of products had a potential market of 5% of the population? It is unlikely, unless the company could have predicted and attained much greater penetration of that small group. For example, if the sales target were set at 1% of the total U.S. population, Deja would have had to achieve a penetration rate of 1.7% if the actual market size was 60% of the population. However, if the market size is only 5%, Deja would have had to achieve a penetration rate of 20%! Unless the company was certain that its product would be purchased by one in every five consumers in its target market, venture capitalists would have stayed away. The core environmentalist market segment is too small to support the investors' required rate of return. MacGregor explained how a total potential market size of 5% would have required a different financing strategy from the one adopted by Deja:

> You would have started the business completely differently. You wouldn't have gotten venture capitalists involved, because gearing up a business to start around green stores is a much slower and more conservative approach than a big bang - ship Nordstrom, REI, L.L. Bean, Bloomingdales. Their concern would be it just wouldn't be enough or fast enough. With venture capitalists, there's a six to seven year expectation in terms of generating a six times multiple or seven times multiple return.

Once this strategic error was made, it was difficult for Deja's management to recover. Not only was the company short on cash from not hitting sales projections, but product redesign to fix style and quality issues required additional investment. Between spring 93 and spring 94, Deja's management had to invest in changing its product from one that competes for core environmentalists to one that competes for mainstream consumers. The trio of venture capital firms was patient -- to a point -- and even invested an additional $3,820,000 to help the company make the transition.

The product misfire in spring 93 put Deja too far behind sales projections. By the time the transition from core environmental product to mainstream product was complete, a primary investor had walked away. After the initial miscalculation concerning Deja's potential market size, it is unclear what else management could have done to correct the problem. The product development cycle for a new line of environmental footwear to be ready in fall 94 had already been crashed from three years to one year. MacGregor remembers realizing that Deja was in a bind:

> I think we did an absolutely outstanding job responding to all this, but...we were about a year behind the revenue stream. In the end, the fall 94 line really took off. It was phenomenally successful. But by this time it was, I won't say it was too little, but it was really too late to bring the venture folks around. We were going to be doing about $4-5 million in 94 and we thought we would be doing that in 93. They did not see it happening.

In addition to the missed sales projections, investors were concerned about price. Although the company had brought down wholesale price from $35.00 per pair to $20.00 per pair between spring 93 and fall 94, investors were unsure if the improvement was substantial enough or could be continued. They were also not completely convinced that the revised date to hit the break-even point -- mid-1996 -- could be hit.

Despite the facts that: (1) U.S. Venture Partners and Allstate had agreed to continue supporting Deja, (2) MacGregor had familiarity with the world of venture capitalists and (3) had previous success in luring investment into the company; it was difficult to overcome the loss of the third investor. BancBoston's unwillingness to participate created credibility problems with other potential investors. The fact that the company could no longer pass through BancBoston's due diligence process sparked doubt about whether investors would see Deja as a viable investment. MacGregor recalled the exasperating effort to bring a third investor on board:

> When you go after new money, the first question is, "Why is the third player not coming back?" And out of everything you're saying, that's just a beacon standing out with a flashing red light saying, "Beware!" I mean it's almost impossible to overcome that fact.

While MacGregor was canvassing the venture capital firms, Lewis was exploring funding opportunities in the environmental community. She approached a variety of funding sources from the Turner Foundation to environmental funds to Paul Newman, but was called into action with only six months before the company would run out of operating cash. Many of the contacts she made were interested in supporting the company, but needed more time to review the concept than the six-month window allowed.

In sum, starting up the environmental footwear company would require the successful execution of one of two strategies. Management could have chosen (1) a slower start-up, directed at green consumers, and funded by an entity that understood and valued the concept of sustainable development, or (2) a product launch directed at mainstream consumers that could generate the volume of sales revenue that met the venture capitalists' required rate of return. Unfortunately for the company, misreading market preferences led to an unfavorable mix of these strategies: a product for green consumers financed by venture capital firms.

Product

Deja overestimated the number of consumers that would pay a premium for environmental footwear. MacGregor's initial hesitations seem to have been correct. The products' poor sell-through in mainstream distribution channels indicates that consumers' interest in the environment is a secondary influence in purchasing decisions. In the footwear industry, their concern for the environment comes after three primary influences on consumers' purchasing decisions: value, performance and fashion.

The canvass product launched by the company in spring 93 did not have these important ingredients. Deja's products were priced two and three times more than what consumers were accustomed to paying for a canvass product. Consumers in mainstream retailers such as Nordstrom and Bloomingdales chose to bypass the environmental footwear in favor of other canvass products that were also available in this distribution channel, but at a lower price.

The initial enthusiasm from mainstream retailers is hard to understand. Although footwear made from new materials and positioned as the socially-responsible alternative is innovative, why did retailers believe that these factors would overcome standard purchasing influences? Did they overestimate the environmental message as a point of product differentiation? Did they notice a shift in consumer preferences taking place? Could the retailers, even though they are the point of contact with consumers, have misjudged consumer preferences while a footwear manufacturer (MacGregor) many times removed from the consumer had understood consumer preferences accurately?

Mainstream retailers had been accustomed to selling to the many consumer segments in the casual footwear market. Teva and Birkenstock produce sandals. Timberland offers different models of work boots (for play), day-hikers and bucs. Rockport has come to market with bucs and casual loafers. Given that there is no casual footwear standard and that the public is concerned about environmental issues, retailers believed that a new segment existed for environmental footwear. The point the retailers overlooked however, is that all of the other segments still competed on value, performance, and fashion. Birkenstock differentiates its German-styled sandal that is molded in the shape of the human foot on fashion and performance. Timberland differentiates its quadruple-stitched, waterproof work boots on performance. Therefore, for any new segment to be successful, the product must be able to compete on value, performance and fashion terms.

In 1993, Deja shoes were not superior in any of these areas. Although many improvements had been made over Lewis' initial run of five thousand pairs, style problems remained. The Eco-sneak was intended to attract youth into the casual footwear market. Yet this segment chose athletic footwear to make a fashion statement. While the Eco-sneak may have been able to compete in the casual sneaker market, this was not the market where the targeted youth population was buying sneakers. The canvass Eco-sneak appeared "flat" to a demographic group accustomed to sneakers with wild colors, leather components, and a Swoosh.

The 93 line also failed to meet customers' expectations for performance. The quality problems that ensued from not adequately testing the canvass material were unique to Deja shoes. Others had long overcome quality issues with canvass and it is now a material that is widely-used and well-understood. As a result, Deja was in the unfavorable position of being the only canvass product in Nordstrom and other mainstream distribution channels that could easily rip out on the sides and back.

Hit 'em Where They Ain't

While Deja's initial instincts were correct-- to enter the footwear industry with a different package of skills than the existing competitor set-- they were never able to fully develop the concept. Furthermore, they fell prey to the conventional wisdom of the industry with regard to several dimensions of their strategy. For example, Deja management knew that they could never out-compete NIKE or even Timberland on the basis of fashion, brand image, or advertising. It was clear that the development of new, hard-to-copy skills in materials development, procurement, and life-cycle design were the keys to competitive success.

Unfortunately, their financing strategy never bought the time needed to develop these potentially important sources of sustainable competitive advantage.

Moreover, the management team's footwear industry experience may have caused them to adopt certain practices, such as manufacturing in Asia, just because "that's the way everyone does it." Indeed, Deja assumed that it would be too expensive to consider manufacturing and assembling in the U.S., but might it not have made more strategic sense for the company to locate manufacturing close to the sources of recycled materials? This would have cut down transportation costs dramatically. It would have also lowered the life cycle costs of the products by sourcing and manufacturing near where the product is to be sold. Might it not have been possible to negotiate a preferred arrangement with a Northeastern city, for example, to take over a vacant textile manufacturing facility, train local unemployed workers, and initiate Deja manufacturing and assembly operations near its markets? This would have added to the power of its social and environmental message, rather than detract from it. It would have made it a more interesting environmental media story. Similarly, if the company were truly committed to "sustainable development," would it not have made more sense to locate value-added manufacturing operations close to the source of the sustainably harvested materials in developing countries? Again, this would have enhanced the conceptual and strategic logic of the company, and perhaps, given it greater integrity with the green market.

The point here is that in order to have a chance in a competitive marketplace, it is necessary to enter with a package of skills and concepts that are fundamentally different from the industry incumbents-- to "hit 'em where they ain't" (see overhead labeled "Hit 'em Where They Ain't" in the *Appendix).* By initially avoiding head-to-head competition, the green start-up may buy itself time to develop a whole new business model that, when fully articulated, can compete head-to-head with the big players, but on fundamentally different terms.

6. Video

After students have had a chance to discuss lessons learned, the instructor can play the final four segments of the video, which deal with Establishing Competitive Position, Financing, Sustaining Competitive Advantage, and Broader Implications. If time allows, the last two segments of the tape can be used to generate a brief concluding discussion. These two aspects are discussed in more detail below.

Sustaining Competitive Advantage

If Deja had remained in business, it would have developed a competitive advantage that could have been sustained over time. In a scenario in which Deja products meet consumer expectations for value, performance, and fashion while providing the additional benefit of environmentalism, the company could have quickly become the dominant company in the casual shoe segment.

After establishing a dominant market position, could Deja be easily displaced? First, the complexity of the environmental footwear business model explained above is difficult to master. Because of the footwear industry's character as a "brown" industry rather than a green industry, it would have been difficult for traditional companies to master what the correct issues to focus on are, let alone how to manage them. A learning curve that was steep for Deja, even with Lewis' understanding of environmental issues and sustainable development and MacGregor's experience in the footwear industry, would be nearly insurmountable for traditional footwear companies.

Secondly, consumers would not react as favorably to environmental copycats as they do to environmental pioneers. Given their predisposition to question commercial claims, they would distrust the motives of the copycats who for years had been selling footwear but disregarding the environmental impact of their products. Rather, they would develop loyalty to Deja as the environmental footwear company. As such, the company would accrue a competitive advantage based on reputation that would be hard to copy. In MacGregor's own words:

> Deja is the original and it is the authentic and to the consumer we're trying to sell, the fact that we're the authentic is just invaluable. If NIKE came out tomorrow or if Timberland came out tomorrow and said, "Hey, we're the environmental footwear company," it would be ludicrous! There would be absolutely no believability to it.

As explained in the section on *Making News*, companies may also come under attack for making false or misleading environmental claims about their products, or greenwashing. Cause-driven organizations frequently fall under more intense public scrutiny than traditional companies, as MacGregor explains:

> At Deja, when you promote yourself as a cause-driven company, it puts you under an incredible spotlight. And a spotlight can be extremely beneficial and kind to the business as long as you are performing in the manner which you stated. [But] that spotlight can be a double-edged sword. If that spotlight finds perceived deception -- whether it's purposeful or not -- that spotlight can kill you.

It is doubtful that traditional companies could adopt a sustainable development strategy and execute it better than Deja for the reasons above. What other response might they have? Traditional companies could erode the attraction of the environmental benefit by ratcheting up the value, performance, and fashion standards that underlie consumer purchases. For example, if Deja succeeded in matching Timberland in value, performance and fashion, it would be unwise for Timberland to attempt to become as Agreen≅ as Deja. Instead, Timberland could respond by increasing their products= performance to a level where Deja would be constrained by its material choices or some other design or production factor. As the Deja story illustrates, the learning curve to incorporate environmentalism into footwear is steep. It is possible that competitors in the casual footwear market could increase the performance and fashion aspects of their products more quickly than Deja could match the improvement in an environmentally sustainable way.

There is one option for developing quick competency in environmental footwear -- acquisition. It is interesting to ponder a situation in which Deja survived and had grown to a $70 million company by 1996 as originally planned. If the company continued to grow at a fast pace and to generate the amount of press activity as it had in the previous three years, it would have become a takeover target by larger industry players.

This situation occurred with Avia. When Avia gained a large share of the aerobics segment of the footwear market, the company attracted Reebok's attention. Similarly, Deja's success would have attracted the attention of larger industry players. However, it can't be determined whether or not an acquisition would actually take place, given that there are not many big companies in the casual footwear segment that could acquire Deja. Would another segment's dominant player, like NIKE or Reebok, be interested in acquiring a thriving Deja, Inc.? Possibly, although a company of that size has other responses to choose from, such as introducing recycled footwear of its own.

Broader Implications

In its short history, Deja, Inc. was able to produce change in the footwear industry. Reebok's Telos hiking boot which was introduced in March 1994 has a rubber outsole made of 70% recycled tires, a midsole that is 50% reclaimed Ethyl Vinyl Acetate and an upper made from 100% recycled PET. Nike has begun a Reuse-A-Shoe program by which it collects used shoes at races such as the New York and Boston Marathons, grinds them up, and uses them to make running tracks and other sports surfaces. Other NIKE products have outsoles that are made from 10% - 20% consumer scrap. K-Swiss, Bass, Sam & Libby, and Merrell are also experimenting with recycled materials. Although these developments represent small steps in the wasteful and environmentally polluting footwear industry, MacGregor asserts that, "the footwear industry frankly is a lot greener [of an] industry and a lot more sensitive [of an] industry as a result of Deja's participation than it was before we started."

Deja's existence also had an effect on the individuals that work in the industry. Lewis' relationships with industry executives served as a vehicle for the executives' environmental education and "conversion." Bill Bowerman – Nike's founder, Dean Croft -- former chairman of the board at Avia, and no fewer than four other Avia executives were all impressed with Lewis' vision and perseverance and were changed in part by their experience with Deja Inc. As these individuals circulate throughout other companies in the footwear business, their ideas will help transform the industry. This closing quote from MacGregor illustrates the depth of the change. It would be unthinkable to have expected to hear these words from Bruce MacGregor before he met Julie Lewis and became president of Deja, Inc.:

> I went from a person at the beginning of Deja who perceived himself to be environmentally sensitive, to someone who realized I wasn't even scratching the surface, to in the end someone who is extremely committed to sustainable development as an economic must. I'm only too glad to allow other people to know what our pitfalls were and to learn from them.
>
> I think it's just critical that people that are going into sustainable businesses understand the pitfalls. The next group of Dejas have to work. Deja can't be the exception. Deja businesses have to be the rule of the future if we are going to truly have a sustainable economy. Ultimately, we will know when we arrived when the ability to market the environment as a bonus ceases to be a point of differentiation. In other words, it will be expected that industries and businesses are, in fact, following a certain sustainable path.

Summary and Conclusions for Deja, Inc. (A) and (B)

Deja, Inc. became the first environmental footwear company in history but eventually failed due to the complexity of the environmental issues facing the footwear industry and the resulting challenges of managing for sustainable development in this industry. Remaining absolutely true to the concept of sustainable development during the start-up phase distracted the company's management away from consumers= primary purchasing criteria -- value, performance and fashion. Environmentalism was not a significant point of differentiation except for approximately 5% of U.S. consumers.

The realization that environmental footwear positioned in the casual footwear segment competes with every other product in that segment came too late. Despite management's phenomenally quick response, a key source of financial support became impatient with the company's inability to meet sales projections. Unfortunately, an investor withdrew at the critical juncture between start-up and growth phases and the company was forced to close. MacGregor explains the difficulty of managing a business based on a sophisticated business model that incorporates footwear industry norms and sustainable development:

> Consumer products would be a much easier place to tackle this to start than footwear. [In] footwear and clothing, you have the added element of fashion. And you have the added element of multi-material components going into the product. In other words, if you were going to make a carving board or some wood product out of sustainably harvested wood, it's one component. Or if you're going to make plastic laundry baskets or something [with] 100% recycled plastics, that's going to be easy to execute. It's when you make a product like footwear that has fifty odd components and has the added element of fashion -- this was a hard area to start an environmental company.

Update

As of this writing (Fall 1996), Julie Lewis is in the process of starting another company--DEEP E CO. This company will also make shoes, as well as other apparel and accessories, from recycled and sustainably harvested materials. However, her new company will not initially seek venture capital financing. They have secured additional funding from a "green angel"-- an individual investor interested in the business concept. They will begin by focusing the products on the green and non-traditional (e.g. university) markets, and are about to seek second-round financing from the environmental community.

After about a year or so as an independent consultant, Bruce MacGregor accepted a position as Vice President at L.A. Gear. It will be interesting to see what influence he can have over this organization. Keep watching those TV ads for new green products!

Environmental Strategy II: Deja Shoe

Stuart Hart
University of Michigan

Deja Shoe (A): Discussion Questions

- What is your evaluation of Deja's environmental business strategy?
- What is their core competence and competitive advantage?
- Can they sustain it?

Deja Shoe (B): What Happened

- March 1993-- “The product shipped, and the product sat”
  - mainstream customers did not bite
  - sell-through OK in the green stores
  - spring ‘93 sales of $1.5 million vs. $5 million (targeted)
- May 1993--Second round of venture capital ($1.32 million)
  - crash on product redesign for fall ‘94 season
  - alternative materials-- hemp, terra guard, vegetal leather
- June 1994--Third round of venture capital ($5.066 million)
  - fall ‘94 sales of $3.0 million vs. breakeven (targeted)
  - awards, press attention, new accounts
  - need for additional working capital to support product development for spring ‘95 line
  - raised an additional $2.5 million
- Deja could not achieve breakeven in 1995
  - sought additional $3.0 million in working capital
  - BancBoston pulled out
- May 1995-- Deja, Inc. voluntarily liquidated its assets

Deja Shoe: Lessons for Green Entrepreneurs

- Strategic Alignment; ensure that all the elements of the environmental strategy co-align.
- Sequencing; use the “green market” as an experimental laboratory to perfect the concept.
- Timing; make sure the business concept is clear and the competency base is developed before going “mainstream.”
- Make News; use the media for free advertising
- Financing; avoid venture capital until you are ready to “rock and roll.”
- Product; deliver value-- environment is secondary to functionality and cost among mainstream customers.
- Hit ‘em where they ain’t; look to enter with a new competency portfolio; avoid “strategy-by-analogy.”

Strategic Alignment

Business Concept	Customer	Design	Price	Financing
Recycling	True Blue	Green	Premium	Slow
Sustainable Development	Greenbacks	Function	Competitive	VC

Hit ‘em Where They Ain’t

Entry Barriers

Core Competencies	Weak	Strong
Unique/ Tacit		
Generic/ Codified		

Deep E Co.

- New venture begun by Julie Lewis in 1996
- Formed management team and secured initial seed funding
- Designing and selling shoes, socks, and bags made from sustainably harvested or recycled material (e.g. hemp, vegetal leather, terraguard)
- Contracting manufacturing in the U.S.
- Start small; focus on “green market” initially
- Private Placement in 1997 ($250,000)
- Buying back “Deja Shoe” name and products
- The Woody Harrelson connection

Hit 'em Where They Ain't

Core Competencies	Entry Barriers: Weak	Entry Barriers: Strong
Unique/ Tacit	"Hit 'em Where They Ain't" e.g. new skills •materials procurement •sourcing •manufacturing	"Nirvana" e.g. Nutrasweet •patent protection + •unique skills
Generic/ Codified	potentially successful "Move or Die" Deja's starting position ??	"Head-to-Head" e.g. NIKE, Reebok •advertising •brand name