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# Transparency in Apparel

## Everlane as a Barometer for Global Positive Impact

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### Abstract

Ethical leadership in the apparel industry is often catalyzed by individual personalities, for example, Patagonia's Yvon Chouinard, yet the wider impact of leader-value promotion permeates the ethos of firm culture, rallying employees to adopt attitudes and behaviors that promote a flourishing enterprise. Some firms recognize and embrace interdependencies that shape the complex relationships among individual ethical values, the firm, and the enterprise value chain. Such a multilevel pluralistic view of ethical leadership—where individual leader-values drive positive impact throughout the stakeholder ecosystem—is notably applicable to resource-intensive globalized industries. This paper sets upon illuminating best practices in the apparel industry through a brief case study of Everlane, a privately-held retailer forged from the values of cofounder Michael Preysman to provide exceptional quality apparel manufactured in factories sharing a common ethical vision, and promoted to consumers with radical transparency. Valued (in 2019) at over \$250 million, the eight-year-old firm is helping to redefine how an industry can better—and more profitably—collaborate with stakeholders to embrace sustainable principles to flourish as agents for world benefit.

The apparel industry is a black box of unaffiliated networks of farmers, manufacturers, shippers, and countless intermediaries who help shepherd goods along the twenty-thousand mile odyssey from seed to shirt (Blumberg 2013; Rivoli 2009). A journey along this value chain weaves a tale of environmental degradation and “race for the bottom” wage deflation. Chemicals used at every stage of production—from pesticides applied to optimize crop yields to plasticizers and formaldehyde used as softening and anti-wrinkling

agents—contribute to degraded soil, polluted waterways, and heightened risks of endocrine disorders for insufficiently protected workers (Chouinard 2016; Fernandez-Cornejo et al. 2014). As a gateway to industrial growth, global textile manufacturers often wrestle with competitors in a market defined by low barriers to entry, hypercompetition with rapidly shifting factor advantage, and low returns on investment—the perfect recipe for exceedingly low market wages (Porter 1990). This supply ecosystem still exists largely blanketed from the end consumer who increasingly expects transparency, mission orientation, and ethical upgrades woven into the fabric of the apparel value chain (Amed et al. 2017, 62–65).

Patagonia is often credited with leading the change effort necessary to help businesses transform into sustainable enterprises capable of flourishing with a deeper understanding of their connection to a complex world. Yet its founder and thought leader, Yvon Chouinard, argues against such deification of these best practices, instead calling upon like-minded business leaders to collaborate toward rewriting standards and enacting practices that promote positive impact.

We can't pose Patagonia as the model of a responsible company. We don't do everything a responsible company can do, nor does anyone else we know. But we can illustrate how any group of people going about their business can come to realize their environmental and social responsibilities, then begin to act on them; how their realization is progressive: actions build on one another (Chouinard and Stanley 2012).

A more contemporary and less documented (albeit burgeoning) case study that builds upon Patagonia's foundation of positive impact is Everlane,<sup>1</sup> an apparel retailer emphasizing "radical transparency," recently recognized among Fast Company's Fifty Most Innovative Companies of 2018 (Segran 2018). Founded in 2010, San Francisco-based Everlane embeds ethical principles into both its cultural ethos and its entire value chain—a winning strategy as demonstrated by estimated 2017 sales revenue of \$115 million (PrivCo 2019). Cofounder Michael Preysman treats transparency as an offensive competitive tactic—an opportunity to exploit—by using stakeholder collaboration and environmental/social auditing as constituent capabilities that combine to form unique company competencies that are difficult for competitors to imitate (Laszlo and Zhexembayeva 2011).

## Multifaceted Transparency Drives Positive Impact throughout the Value Chain

Radical transparency is exemplified both in Everlane's approach to customer engagement and maintaining relationships with suppliers. Upon taking its website live in 2011, Preysman bucked the industry norm of keeping its cost model secret, making public on social media not only its true cost of goods sold, but also breaking it further into material, labor, transport, and other constituent components (Berfield 2015). Now offering a staple calculation for each product, Everlane has codified the practice on each product's webpage, also incorporating their gross margin and competitors' MSRP: "We believe customers have the right to know what their products cost to make." (Everlane 2019a)

Everlane also provides radical transparency into its value chain, offering customers tremendous insight into the specific factory that manufactures each product. Unlike competitors that "bolt on" such initiatives as a marginal or peripheral activity (for example, simply listing key foreign suppliers), Everlane provides a detailed chronicle, accentuated by photos and videos from field visits, describing the evolution of the supplier relationship, key initiatives undertaken to benefit their community, and the positive net impact of their relationship. For example, at a factory in Ho Chi Minh City, Vietnam, Everlane describes their "Black Friday Fund" initiative, wherein all profits on the Friday following Thanksgiving are donated to support a supplier's most critical need. The problem: most Vietnamese commuters drive a moped, but required helmets aren't readily available. The solution: Everlane provided high quality custom helmets to all eight thousand factory employees. Since partnering with the facility in 2014 (notably managed by a female president), the workforce headcount at the factory has doubled (Everlane 2019b).

Other "Black Friday Fund" initiatives have proven equally successful. At Saitex, Everlane's denim manufacturer in Bien Hoa, Vietnam, workers received one free meal during each shift. Wanting to expand this program and increase the availability of pesticide-free food options, Everlane partnered with Boston-based Freight Farms to establish three Leafy Green Machines™—forty-foot hydroponic farm-in-a-box shipping containers—onsite at Saitex, which can indefinitely provide free daily meals for all four thousand factory employees (Amelinckx 2017). Interestingly, Everlane delayed the launch of denim products for many years until they could fully vet a manufacturer capable of meeting their exacting standards for environmental sustainability. Processing denim demands a considerable environmental footprint, requiring

appreciable water, electricity, and chemical compounds. Saitex owner, Sanjeev Bahl, developed state of the art techniques to manufacture Everlane's denim that reduces the required water consumption from 1,500 liters per pair of jeans to 0.4 liters by recycling wastewater and diverting chemical "sludge" to concrete mixers where it is rendered inert and turned into bricks used to build affordable homes. The use of solar panels has reduced carbon-energy consumption by eighty percent, and instead of traditional driers, jeans air dry from hot factory exhaust excreted during the manufacturing process. Saitex plants trees to offset its remaining carbon footprint (Everlane 2019c).

What emerges from such multifaceted transparency is a business with the goal of pursuing sustainable value through the transformation of key strategies, objectives, and processes. Customers receive a high quality product at a reduced price with cost transparency—that contributes to a healthier environment and improved human well-being—with no adverse trade-offs. Collaboration with suppliers that recognize sustainability practices is everyone's job responsibility helps to maximize impact across the entire value chain. Such an enterprise demonstrates positive ecological and social impact and utilizes embedded sustainability to derive a considerable competitive advantage (Laszlo and Zhexembayeva 2011).

### "Flexing" Demand Prediction as Validation of Positive Impact that Creates Business Value

Demand prediction within the apparel industry often reduces to complex stochastic models, given the combination of process-related disruptions (e.g., supply chain inadequacy) and unforeseen market-related conditions (e.g., abnormally cold winters) pervading the decision making effort (Arreola-Risa and DeCroix 1998). Aside from traditional marketing tactics such as deep discounting or alternative channel distribution, overstock apparel is often baled into large bulk bundles and shipped abroad, destined to join cast-aside used clothing and sold by weight in thriving mitumba marketplaces throughout Africa. Every additional transcontinental journey imparts an environmental cost, and the mitumba trade itself is highly controversial because it is uncertain whether the neediest individuals are able to receive affordable clothing, since conniving middle-market vendors often intercept and sell the highest quality offerings at extraordinary markups (Rivoli 2009).

Everlane solves this problem by purposefully underestimating demand, a tactic used to both minimize waste and leverage scarcity as a mechanism to motivate its customer base via frequent communications announcing product

launches. If demand surges beyond expectation, a waiting list ensures orders are subsequently fulfilled. A prime example occurred in 2017 when a popular pair of ballet-inspired heels sold out within three days, and twenty-eight thousand customers joined the waiting list for delayed fulfillment (Segran 2018). Everlane exploits this efficiency opportunity as a value creation driver by eliminating the cost and energy impacts of manufacturing a wasted product and can only leverage this constituent capability of rapid turnaround via its intimate collaboration with suppliers (Laszlo and Zhexembayeva 2011).

The opposite problem—accidentally overestimating demand—reveals an insightful correlation between positive impact and business value. It is in this unique situation where Everlane demonstrates what Laloux (2014) would describe as the “evolutionary-teal paradigm” wherein the firm emphasizes its strengths—in this case, radical transparency—as an instrument for reflecting upon whether a decision feels right in the context of its noble purpose to the world. Confronting an overstock, Everlane provides customers a choice in the price they are willing to pay. Specifically, three options are presented—each reflecting a substantial discount from Everlane’s original retail price—reflecting (1) a low price that reflects only the baseline development, production, and fulfillment costs, (2) a mid-tier price that adds the cost of overhead, and (3) a high price that incorporates a surcharge for future product development. While the nudge (default) selection is the low price, Fast Company reports that twelve percent of customers defer their selection to either the mid-tier or high price option (Segran 2018). If we accept the premise that deferral from the default low-price option represents the consumer placing implicit financial value in some intangible factor or benefit (otherwise, such action is purely irrational), such a finding could lend support to the conclusion of Epstein, Buhovac, and Yuthas (2015) that the value of sustainable practices can exceed their costs. While not bulletproof evidence, the implication holds tremendously exciting possibilities for further research.

### Value Chain Accountability as Sustainable Long-Term Strategy

While mindful to avoid a fallacy of composition, Everlane seems to exemplify a business model that diverts from the traditional neoclassical theory of the firm. As such, an alternative theoretical model, such as that posited by Donaldson and Walsh (2015), seems well-suited to illustrate how a firm can serve both a focal purpose in society (via financial profit) and contextual purpose for society (through the agglomeration of collective value for all people affected by the business). Everlane has developed a process

to measure collective value through comparison across disparate elements of its value chain to ensure a requisite level of respect for the individual (loosely, “stakeholder”) commensurate with his or her inherent worth.

Everlane mandates each vendor adhere to a stringent code of conduct, monitored by periodic announced and unannounced physical audits. Vendors failing to meet a minimum threshold of ninety percent compliance during an audit must navigate a corrective action plan. A second subpar review often earns a physical site visit from top executives. Preysman is renowned for his brutally honest enforcement of values to ensure customers can depend upon his firm to uphold the highest ethical and sustainable principles. The code defines minimal expectations for working hours, dormitory conditions, health and safety standards, rights of collective bargaining, and several other facets of social responsibility that far exceed industry norms—not an easy sell when Everlane often represents a very small portion of work for larger mega-factory facilities. But this is precisely why Preysman’s team carefully vets and audits facilities, tying business incentives to compliance requirements. Another factor that exemplifies radical transparency is that each vendor must agree to be openly photographed (for stories shared publicly on Everlane’s website) and commit to promoting continuous improvement initiatives to improve working conditions within their facilities (Berfield 2015; Everlane 2019e).

As a California-based business, Everlane also complies with the Supply Chain Transparency Act (CA-SB657) to monitor and eliminate threats of human trafficking and slavery across its entire supply chain. Their core values—“the ethical choice is the right choice” and “everyone can and should make a difference”—broaden compliance beyond the Act’s limited legislative scope to also incorporate the greater context of labor and human rights practices (Everlane 2019d). A combination of the Vendor Code of Conduct and Supply Chain Transparency Act disclosure (both publically available at Everlane’s website) together link expectation with enforcement, demonstrating that coordinated action among stakeholders—rooted by the mutual goal of maximizing collective value—creates stronger businesses. Indeed, success should not be constrained by a “good enough” criterion, but rather flourish by what is possible (Donaldson and Walsh 2015).

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October 2018 marked an inflection point for Everlane as Preysman posted a letter on the company’s website introducing the ReNew collection of out-

erwear featuring body materials comprised entirely of threads manufactured from recycled plastic bottles. Everlane estimates three million bottles—Bluesign-certified to provide third-party transparency—will be “renewed” during the initial production run. While competitors have incorporated similar techniques, the process is still nascent within the apparel industry, and Everlane is seeking to push the technology envelope by working with vendors to incorporate fully recycled trim and hardware (e.g., zippers and buttons) in the future. Furthermore, they have committed to eliminating virgin plastic from their entire supply chain by 2021 (Everlane 2018).

Preysman’s team faces a formidable challenge as they embark upon the next stage of their growth. No longer a silent threat to entrenched apparel retailers, a billion dollar question remains unanswered: Threatened by the tensions and trade-offs of financial, social, and environmental performance, can sustainability prove itself as a long-term business strategy? As social and environmental perspectives become ingrained into an organizational culture, traditional strategy implementation theories that focus on formal financial optimization struggle to explain the emergence of sustainability as a competitive advantage (Epstein et al. 2015). Yet Preysman’s vision has persevered against competitive threats, and research indicates that the greater a CEO’s developmental paradigm toward a consciousness of positive impact as a capability to solve ever-complex problems, the more effective the organizations they manage toward realizing that same ideal vision (Laloux 2014). If ambition provides a beam of light into the cavern of uncertainty, the future seems bright for Everlane.

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## Notes

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