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COLE AND PARKER: SOCKS THAT START BUSINESSES

Amy Shuh wrote this case under the supervision of Elizabeth M.A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

It was March 2013, and Diana and Jeff House, co-founders of Cole and Parker, had just sat down to review their marketing plan together for the upcoming launch of their new business. Their concept for Cole and Parker was innovative: for every pair of socks the company sold, 1 per cent of its sales would be lent through Kiva,[1] an organization that facilitated microfinance lending. Essentially, the sale of each pair of socks would aid entrepreneurs around the world who were starting their own businesses. With this socially responsible business model in mind, Diana and Jeff wondered what marketing decisions would be most effective for the successful launch of their new venture.

THE ONE-FOR-ONE BUSINESS MODEL

Blake Mycoskie popularized the "one-for-one" business model after founding TOMS Shoes in May 2006. In January 2006, while travelling and volunteering in Argentina, Mycoskie became distraught by the large number of children he noticed who were barefoot and impoverished. He was also intrigued by the style of shoes worn by Argentinean polo players, which were of a simple canvas slip-on style called *Alpargatas*. With the collaboration of an Argentinean shoe manufacturer, Mycoskie stylized some Alpargatas that he felt would fit with the North American market. At the retail level, for every pair of shoes sold, TOMS would donate another pair to a child in a developing part of the world. As the official Chief Shoe Giver, Mycoskie was not just creating a business; he was creating a movement. "The giving aspect of TOMS makes ours shoes more than a product. They're part of a story, a movement anyone can join."[2] TOMS trademarked the term "one-for-one" as a description of its business model.[3]

The quick success of TOMS was demonstrated through its sales. From its inception to 2010, TOMS had donated one million shoes worldwide. In 2012, it was estimated TOMS sold its two millionth pair of shoes.

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[1] *www.kiva.org, accessed January 28, 2014.*
[2] *Source: Good Works!: Marketing and Corporate Initiatives that Build a Better World, Hessekiel, Kotter and Lee, May 23, 2012.*
[3] *Ibid.*

The launch of several socially responsible for-profit businesses emerged from the TOMS' lead, including the following:

- Warby Parker, a New York eyewear retailer, made a financial donation for every pair of glasses sold to Restoring Vision.
- Ten Tree Apparel, a Saskatchewan-based clothier, planted 10 trees for every item sold.
- WeTopia, a social game on Facebook, turned players' points into monetary donations for children's charities.

By early 2013, the webpage www.shopwithmeaning.org[4] listed several more one-for-one companies, with product offerings that included wine (OneHope), hand soap (Hand for Hand), candles (Candles for a Cause), health bars (Kutoa Bars), pet beds (Alpha Pooch), vitamins (Life Equals), blankets (Blanket America), and toothbrushes (Smile Squared). One-for-one companies were not only providing consumers with an outlet for giving back, but they were also creating sustainable business practices, which, for the most part, enhanced the companies' profitability.

For retail industry analysts, this one-for-one model provided some extremely valuable insight into consumer behaviour. It became obvious that consumers were looking for opportunities to give back through their purchases. In 2008, 80 per cent of 1,000 Americans surveyed said they would choose a brand associated with a good cause over another brand if both were similar in price and quality. Nineteen per cent said they would switch to a more expensive brand for this opportunity.[5]

According to Statistics Canada, purchases of ethical[6] products by Canadian consumers increased from 20 per cent of the population in 2003 to 27 per cent in 2008. Forty-one per cent of people with university degrees had purchased a product for ethical reasons. Those in higher income groups were also more likely to purchase an ethical product; however, those aged 65 years and older were the least likely to purchase an ethical product.[7]

Challengers of the one-for-one model questioned its sustainability and the impact of the movement. In 2012, Cheryl Davenport of Mission Measurement, a strategic consulting firm, critiqued the one-for-one model:

> Those helped by TOMS are, in the long-term, no more able to afford shoes or address the real social, economic, and health issues that they face than they were before. Once their free shoes wear out in a couple years, the children will be just as susceptible to the health and economic perils associated with bare feet as they were before.[8]

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[4] *The webpage's main goal was to connect consumers with socially responsible companies worldwide.*
[5] *Source: http://online.wsj.com/article/SB10001424052748704116004575522251507063936.html, accessed January 28, 2014.*
[6] *Products considered "ethical" are those that appeal to consumer beliefs that they can effect positive social and economic change through their consumption choices.*
[7] *www.statcan.gc.ca/pub/11-008-x/2011001/article/11399-eng.htm, accessed January 28, 2014.*
[8] *www.ecouterre.com/is-tomss-one-for-one-business-model-doomed-to-fail/, accessed January 28, 2014.*

COLE AND PARKER

The Co-Founders

Jeff House graduated from London, Ontario's Western University in 2007 with an honors bachelor's degree in health sciences. Upon graduation, House began a career in real estate, successfully transacting $20 million in sales and 120,000 square feet of leasing in his first few years. He launched House Group Inc., an asset management company with several commercial and residential properties in their portfolio. Jeff also offered real estate brokerage and consulting services, with a strategic focus on the development, construction and project management of properties in the city of London, Ontario, Canada.

Diana House's career included that of investor, creator and entrepreneur. After her graduation from Bond University's Law School in 2009, Diana launched Tiny Devotions (www.tinydevotions.com) an intention based accessory company that became successful through being first to market in North America selling mala beads[9].

Together, Diana and Jeff established a formidable partnership after connecting over their common interest in the start-up business environment. Most importantly, they both had a passion for entrepreneurialism and wanted to find a sustainable way to support the entrepreneurial efforts of others, both locally and abroad.

Microfinance

The one-for-one business model intrigued the Cole and Parker co-founders. After a trip to Columbia in 2010 with Opportunity International,[10] Jeff saw first-hand the impact of microfinance loans. Microfinance was a financial service wherein loans were extended to entrepreneurs who would otherwise be unable to access the necessary capital to operate and/or launch their businesses. Often, in the poorer developing nations of the world, these small-scale entrepreneurs lacked the assets to secure collateral, as required by banks within their regions. Microfinance organizations would extend these loans – which were deemed "higher risk" by the banks – and, as with any other loan, the loan recipient would be required to pay back the principal amount and interest at a later date. In 2012, the World Bank estimated that about 160 million people in developing nations worldwide were served by microfinance organizations.[11]

Although credit unions had been around for centuries, the creation of modern microfinance was attributed to a Chittagong University economics professor, Dr. Mohammad Yunus, who began providing small loans to impoverished women in Bangladesh in the 1970s. In 1983, he founded the Grameen Bank, a bank for the poor, which was one of the first global institutions to provide loans not based on collateral, but on "mutual trust, accountability, participation and creativity."[12] Yunus won a Noble Peace Prize in 2006 for his work in this area.

Microfinance lending was not just limited to the developing nations of the world. In 2011, it was estimated that one in 12 American households were "unbanked," meaning they did not have a bank account or access to financial services. In this same year, the average microfinance loan in the United States was $9,732, and in developing nations, it was one-tenth of this amount, $973.[13]

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[9] *Mala beads are prayer beads commonly used to count mantras.*
[10] *www.opportunity.org, accessed January 28, 2014.*
[11] *http://web.worldbank.org, accessed January 28, 2014.*
[12] *www.grameen-info.org/index.php?option=com_content&task=view&id=16&Itemid=112, accessed January 28, 2014.*
[13] *www.fdic.gov/householdsurvey/, accessed January 28, 2014.*

Many proponents of the concept believed that, by providing the means to create a sustainable source of income, microfinance created an opportunity to lift people out of poverty. Jeff described the concept: "Instead of just charity, where you give a man a fish, you teach the man to fish so he eats for a lifetime."[14]

The One-for-Many Business Model

Diana and Jeff envisioned Cole and Parker as a socially conscious, technology-driven, lifestyle brand (see Exhibit 1 for the company logo.) The inspiration for the name Cole and Parker originated from the names of jazz musicians John Coltrane and Charlie Parker. Jeff described the link between entrepreneurialism and jazz: "Entrepreneurs have to carve out a bit of their own path, and in jazz, improvisation is a huge part."

After gaining a full understanding of microfinance loans, the co-founders wondered how they could extend the one-for-one concept one step further. Diana and Jeff began brainstorming and thought that donating a product in need was not the hook they were looking for to launch of their new business. Instead, they wanted a more sustainable model. Thus, the one-for-many business model was born, whereby a percentage of top-line sales revenues would be loaned (through a microfinance organization) to give small-scale entrepreneurs the capital needed to sustain a business of their own.

Partnership with Kiva

Diana and Jeff had many goals for their new business, centred on the one-for-many business model. They would design and develop the product and create the brand story in an effort to drive sales that, in turn, could be turned into microfinance loans. The goal of their new business was not, however, to be a microfinance organization. There were already many existing organizations with great international partnerships that awarded financing to those who needed it the most. The partners thought it would be best for their business to partner with one of these established microfinancing organizations, and after much research, both partners believed that Kiva Microfunds (Kiva) would be the best fit. Through Kiva, Cole and Parker would be responsible for choosing the individual who would receive the loan, and Cole and Parker consumers would have to trust that their purchase would eventually make its way to an appropriate loan with Kiva.

Kiva, a not-for-profit organization, was founded in 2005. Kiva's co-founders, Matt Flannery and Jessica Jackley, were initially inspired by a presentation in 2003 given by Mohammad Yunus at Stanford University. Kiva's website (see Exhibit 2) acted as an intermediary, allowing people to make loans, via the Internet, to people and businesses in developing countries. Kiva's goal was to connect lenders with entrepreneurs on a more human level, and this goal was accomplished through the use of a website that showcased the personal stories of each loan recipient and their needs.

By early 2013, Kiva had facilitated $400 billion in loans to one million individuals and/or organizations in 69 countries. Kiva prided itself on its loan repayment rate of over 99 per cent. Kiva loans were facilitated through 203 field partners made up of microfinance organizations, such as social institutions and not-for-profits, worldwide. The field partners were responsible for "screening borrowers, posting loan requests to Kiva, disbursing loans and collecting repayments, and otherwise administering Kiva loans."[15] Upon loan repayment, the field partners would remit the principal of the loan to Kiva, where the lender could choose to re-lend it to another entrepreneur or retract the principal amount from the lending process.

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[14] *Western grad hopes to knock socks off Dragons, The Gazette, April 2, 2013.*
[15] *www.kiva.org, accessed January 28, 2014.*

MARKETING DECISIONS

The Product

The first product Cole and Parker intended to launch was a brightly coloured, high-quality and boldly designed pair of socks (see Exhibit 3 for product example.) Diana and Jeff wanted to create a transitional sock that could be worn with a suit or high-end denim. The co-founders believed the apparel marketplace lacked any sort of sock brand that told a product story. Cole and Parker's product story would be summarized in the company's tagline: "Socks that start businesses."

Coincidentally, by late 2012 and early 2013, several media outlets had started to highlight socks as a "go to" apparel trend in menswear. David Coleman of the U.S. *New York Times* newspaper, proclaimed:

> Distinctive socks are a clever and easy way to add a little oomph to your look without going overboard. A pair of multicolor Nordic socks is one thing — a bit of style you can flash when sitting down or crossing your legs — while a sweater in the same pattern might represent an unsportsmanlike reindeer overkill."[16]

Gabrielle Greco, a senior buyer at Jack-Threads, a members-only menswear website, stated, "Socks have developed into an accessory versus a basic staple, and men want to show them off because they are very well designed."[17]

Diana and Jeff wondered whether Cole and Parker should expand into other product lines that would be aligned with their bright, bold and socially responsible brand image. If so, what could these lines be? When would be the right time to expand?

The Consumer

Given the initial product and the unique business model, the co-founders wondered what consumer group to target. What characteristics would the Cole and Parker customer have? What would be the primary age group? Recently, fashionable and bold socks seemed to have been directed more towards the male consumer, but should Cole and Parker offer a women's line? Diana and Jeff needed to determine their target market in order to most effectively craft their marketing decisions and the execution of their message.

Placement

Diana and Jeff wondered what placement strategy would best resonate with their target market *and* drive the most sales. There were three options for distribution: selling the socks wholesale to retailers, establishing the company's own "brick and mortar" storefronts and, an e-commerce method of online sales.

The partners had several concerns about each distribution strategy. Should they approach the buyers at large department stores in hopes of gaining a large wholesale order? Which retail chains offered the best fit the Cole and Parker brand? Could retailers be persuaded to carry this line? What marketing support

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[16] *www.nytimes.com/2011/12/22/fashion/bold-colorful-mens-socks.html?ref=tradingup&_r=0, accessed January 28, 2014.*

[17] *www.indiatimes.com/lifestyle/fashion-and-beauty/trend-alert-men-love-colourful-socks-78662.html, accessed January 28, 2014.*

would the partners have to provide, and would they still be able to control their brand image? If Cole and Parker built its own brick-and-mortar storefronts to sell the product, it would need the capital and managerial experience necessary to launch its own branded shop. Finally, could the company rely solely on e-commerce to drive sales through a branded webpage? Would customers be willing to pay shipping costs on a small purchase, such as one pair of socks?

Price Point

Considering their cost to manufacture the socks, the competitive landscape, and the target market's willingness to pay, Diana and Jeff had to set an appropriate price point for a pair of socks. They wanted to take into consideration the risk of offering a higher price point, since this would mean more money available for loans through Kiva.

Diana and Jeff viewed the current non-athletic-sock market[18] to be divided amongst three categories: discount, mid-range and luxury socks (see Exhibit 4). The discount-sock market consisted of socks sold in bargain outlet retails in packages of two or more pairs of socks for less than $10 per package. Mid-range socks retailed from $9 to $14 per pair, and were sold in retail outlets such as Mark's Work Wearhouse and H&M and in department stores, including Hudson's Bay and Sears. The luxury sock market included brands such as Paul Smith, Robert Graham, and Bugatti, and a pair of socks were priced above $20. These socks could be purchased at high-end retailers such as Harry Rosen and Holt Renfrew.

MARCH 7, 2013

On a whim, Diana and Jeff had auditioned for the popular Canadian Broadcasting Corporation (CBC) television program *Dragons' Den*, a reality program where entrepreneurs pitched their business ideas to a panel of venture capitalists (called the Dragons) who could choose to invest in (or finance) the venture, usually in exchange for an ownership share of the business. On March 7, 2013, Diana and Jeff received a phone call from a Dragons' Den producer: "Be ready to pitch, on camera, to the Dragons on April 4th [2013]!" The partners were excited by the opportunity to pitch their new business model to the esteemed panel.

With just one product and their one-for-many business model, the co-founders had to establish the remaining details of their business plan as soon as possible. Knowing that one of the first questions the toughest Dragon, Kevin O'Leary, a Western alumnus from the Ivey Business School, would ask would be "How many have you sold?" Diana and Jeff wanted to devise their marketing strategy to get as many product orders as possible before the on-air pitch date. With just a month to get everything in order, they knew it was crunch time.

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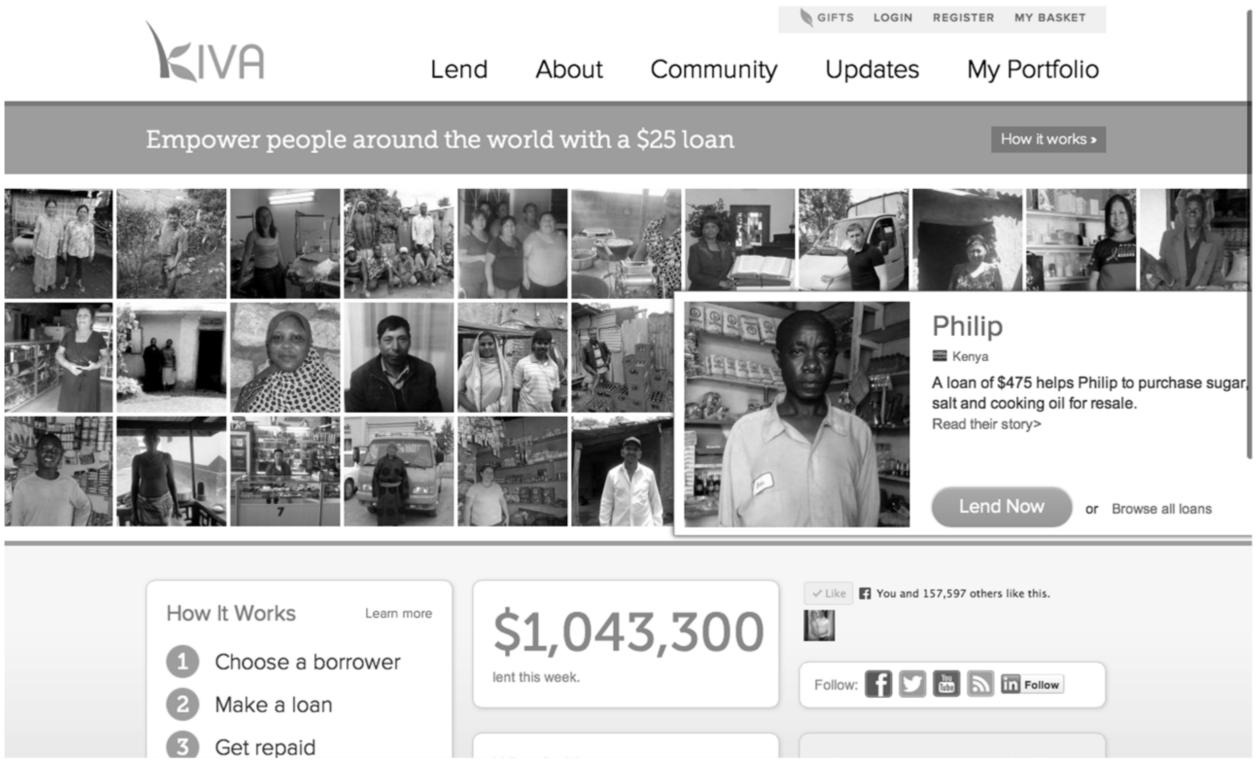
[18] *Cole and Parker considered athletic socks, those to be worn during physical activities, not in direct competition with its fashion-focused product offering.*

EXHIBIT 1: KIVA'S WEBSITE HOMEPAGE



Source: www.kiva.org, October 29, 2013.

EXHIBIT 2: COMPANY LOGO

Cole + Parker

Source: Company files.

EXHIBIT 3: PRODUCT EXAMPLE

The Connector

The Closer

Source: Company files

EXHIBIT 4: THE NON-ATHLETIC SOCK MARKET

TYPES	RETAILERS	SELLING POINT

Discount

Source: Walmart

- Walmart
- Target

- Value
- Comfort

Mid-range

Source: Mark's Work Wearhouse

- Mark's Work Wearhouse
- H&M
- The Bay
- Sears

- Durable
- Everyday wear

Luxury

Source: Robert Graham

- Harry Rosen
- Saks Fifth Avenue
- Neiman Marcus
- Robert Graham
- Paul Smith

- Bold designs
- High quality