

Veja trainers

Ian Marcousé asks if the footwear brand has achieved sustainable success



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Sébastien Kopp realised that Veja was a success while sitting outdoors at a Los Angeles café: ‘In one hour in downtown LA we were seeing people every 30 seconds walking past in Vejas.’ The trainers have become a standard celebrity accessory, worn by Meghan Markle, Emma Watson and Eddie Redmayne. In 2019 the business is expected to have a €60 million turnover, up from €12 million in 2016. Pretty good for a business that started with €14,000 of share capital and a bank loan for €15,000.

In 2005, Kopp and partner François-Ghislain Morillion developed the first sustainable trainers. The styles are crafted in Brazil from organic cotton with Amazonian wild rubber soles. No plastics are used and therefore no oil. Kopp and Morillion say they take care over the working conditions of those who make the trainers, including urging factory-owners to let

staff join trade unions. However, many customers are unaware of the brand’s ethical credentials — they just like the not-Nike, not-Adidas image.

The ethos of the business has made it attractive to image-conscious celebrities, particularly in France and the USA. With prices starting at around £85 a pair, the trainers are priced in the middle of the market, making them accessible to many.

The growth of the business has been dramatic. In 2010 there were only eight staff. Today Veja occupies two offices in Paris, employing 130 people. Kopp is clear that this growth has been hard to manage — risking turning himself and Morillion from creative entrepreneurs into office managers. But he says they have got over various growth crises, and now feel in a better place.

Now they are taking the Veja brand from the general

footwear business into the \$181 billion performance wear market. Veja has developed the first sustainable running shoe: Adidas and Nike typically use plastic to make their sportswear, but Kopp believes Veja has found a way to deliver equal performance in an environmentally sustainable way. It took ten prototypes to get to this stage, but will customers accept a brand outside the Nike/Adidas dominance of sportswear?

Practice exam questions

30 marks, 35 marks

- 1 Kopp and Morillion have launched their sports performance trainers without making a quantitative sales forecast. Explain why this might be unwise. (4 marks)
- 2 One Veja employee estimates that the new performance shoes should generate an annual surplus of €12 million for the next 4 years. The investment outlay has been €8 million. Calculate the average rate of return (ARR) on the investment, if the employee's estimates prove right. (4 marks)
- 3 Assess the advantages and disadvantages to Veja of having pursued organic growth. (10 marks)
- 4 Assess how Ansoff might view Veja's recent launch of performance wear trainers. (12 marks)

Answers

- 1 A quantitative sales forecast can only be made after careful research into likely customer demand (in this case, perhaps by asking existing Veja leisurewear customers how likely they'd be to buy Veja running shoes). This would help give data that could be plugged into a method such as investment appraisal (or breakeven analysis) to determine whether the expenditure on developing and launching the new product range is likely to be profitable. Without this work, there's a risk that the new launch will be an expensive distraction from the real business.
- 2 $ARR = \frac{\text{Annual average profit}}{\text{Initial outlay}} \times 100$
 $\text{Surplus of } €12\text{m} \times 4 \text{ years} = €48\text{m}$

Profit over lifetime = €48m – €8m = €40m

Annual average profit = €10m

$ARR = \frac{€10\text{m}}{€8\text{m}} \times 100 = 125\%$

- 3 A key aspect of organic growth is that the development of a unique organisational culture can grow from the continued involvement of the founders and their original (eight) staff. Today's 130 people can leave and breathe Veja — and therefore know how to respond to customer ideas or complaints and how to develop new products. This helps customers see Veja as a coherent brand. Contrast this with Adidas, that once bought US brand Reebok to try to conquer America. The plan failed. Adidas did much better in the USA when it grew organically, using its German brand name. The text mentions growth challenges for the business (which is normal). Organic growth tends to be slow enough to cope with struggles such as cash flow problems. Inorganic growth is inevitably sharper — vertical rather than gradual — creating a greater possibility that growth challenge becomes growth crisis

However, the gradualness of organic growth can cause its own problems. Once Veja had proven the sales potential of organic, 'ethical' trainers, competitors have a natural tendency to observe, then copy. But clever people don't copy directly, they extrapolate from the situation, e.g. if ethical casual trainers can be successful commercially, what about ethical performance shoes? So there's a risk that by the time Veja has coped with its success with product A, it may have been pre-empted in its bid to launch product B. Someone taking over Veja is one way this story could end, or perhaps Veja could have bought either the rival about to pre-empt it with performance shoes, or buy a rival, to gain the production capacity to bring out its ethical running shoes earlier.

- 4 Ansoff would have viewed the launch through the prism of risk vs reward. To Ansoff, the ideal strategy is one that identifies significant potential rewards, but acknowledges and attempts to quantify the risks involved. He would urge leaders to be clear that a

Can Veja move from leisurewear to performance wear?



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risk-free strategy is nearly impossible and in any case undesirable. To Ansoff, the nearest to risk-free is to focus on market penetration (existing products, existing markets), but this implies sterile business with no ambition to develop geographically or technologically.

The launch of performance wear would essentially be seen as product development, i.e. a new product appealing to the existing market/customers. Ansoff would acknowledge the huge marketing advantages of this strategy, such as the likelihood that much of the distribution method will be the same (selling through retailers such as JD Sports or Selfridges) and also that selling a new product to existing customers is an easier sell. You don't have to persuade customers to trust your brand, as they already do.

But Ansoff would also counsel against complacency. He'd emphasise that there are huge risks in entering a new product space, with different dynamics in terms of the nature of competition and also in customers' image of your brand. You may be trusted to be ethically sound and to produce comfortable trainers

— yet doubted in your ability to meet the technical challenges involved in developing running shoes. And then there's the power of the sportswear brands Nike and Adidas.

So Ansoff would probably applaud the management's decision to launch this new product range, while remaining open-eyed about the market challenges and risks involved. He would probably urge Kopp and Morillion to think about the worst that could happen, and prepare for it financially. Can Veja's balance sheet withstand a loss-making — and ultimately failed — product launch? As long as the answer's yes, they should go ahead and give it their best shot.

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