

## TRC Looks For a Winning Triple Bottom Line

Driving west on the Interstate to her suburban home after another long summer day at headquarters, Sharon Matthias began to ease her grip on the steering wheel as traffic lightened. Things were going well for her, she thought, and next week could be a huge step forward. As she relaxed, a childhood tune floated up into her consciousness, one proudly sung by her mother, who had worked well over forty years ago as a seamstress, sewing hats in New York City's garment district. Back then, her mother's union, the International Ladies' Garment Workers' Union, had altered the lyrics of a popular 1920ies Jerome Kern tune, "Look for the Silver Lining". Sharon broke into song as she sped down the highway:

*Look for the union label  
when you are buying that coat, dress or blouse.  
Remember somewhere our union's sewing,  
our wages going to feed the kids, and run the house.  
We work hard, but who's complaining?  
Thanks to the I.L.G. we're paying our way!  
So always look for the union label,  
it says we're able to make it in the U.S.A.!*

Growing up in a single-parent, racially mixed family in Manhattan's Washington Heights, Matthias attended the Fashion Merchandising Management program at the New York-based Fashion Institute of Technology. Beginning as an assistant buyer of women's apparel twelve years ago, she had worked her way up the merchandising ladder at The Rundle Company (TRC) and was now senior vice-president of merchandising. Her employer, a major retail department store chain and Internet seller of men's, women's, and children's apparel and accessories, had close to 1200 locations throughout the United States, annual sales revenues of over \$19 billion, and more than 120,000 employees. TRC's own store branded merchandise was manufactured in the United States and abroad by nearly 1200 independent suppliers in over 3000 factories. The retail giant also marketed other well-known branded apparel.



Earlier that day, Matthias had met with other TRC merchandising vice-presidents to discuss secret plans that she had been developing to market a new line of clothing in selected retail locations and on-line. The merchandise was unique in two striking ways: it would be made only from natural fibers and environmentally friendly dyes; and it would be produced by suppliers, both in the United States and abroad, in factories where workers were represented by independent trade unions or freely allowed to organize and seek collective bargaining rights. TRC had been discussing this merchandising initiative for over three years with a global consortium of socially progressive fabric and other raw materials manufacturers and suppliers, including labor and environmentally focused NGOs, the United Nations, the International Labor Organization, and a broad spectrum of unions.

Contractual agreements for dedicated production capacity, delivery schedules, quality assurance, and price, were close to finalization for delivery beginning in the spring of 2010. Designs for the new clothing lines originated from three well-known and respected fashion apparel design firms and had been successfully received by shopping panels in test marketing surveys.

Matthias was scheduled to make her final recommendation on the new product line to TRC's senior management in three days. TRC's survey research had shown a growing customer interest in purchasing products made in an environmentally friendly way by socially responsible firms. For example, recently surveyed customers reported that they would be willing to pay an average price premium of 10 percent (standard deviation of 1.5 percent), for merchandise in this category. Matthias was particularly impressed with this finding given the recent sluggish economy and flat or declining retail sales figures. While the new apparel suppliers would carry some of the major risks, TRC had its share in this plan, as well. Among them were the initial contracts for \$100 million to guarantee delivery and advertising and promotion costs of \$10 million. Industry consultants believed that no other major retailer was this far ahead in plans to launch any comparable line of clothing.



Matthias had done her homework. Based upon careful cost and demand projections, TRC could expect only to breakeven during the first season of sales. However, Matthias and her colleagues were optimistic that both paid advertising and unpaid publicity on the new line could draw the attention of socially and environmentally conscious potential customers that would spill over to TRC's established clothing offerings.



Unlike a successful progressive new entrant to an established industry (e.g. Ben and Jerry's, The Body Shop, Trader Joes), TRC was in a different situation. Matthias realized that her innovation would be embedded in a well-established marketing and supply chain culture. She was heartened, however, when she looked at emerging global trends in other industries where market leaders had realized the value of product designs, manufacturing methods, and distribution strategies that were socially conscious and environmentally friendly. Patagonia, for example, had launched a new range of clothes made from recycled PET plastics more than ten years earlier. Bono, the leader of the band U2, and his wife, Alison Hewson, had been promoting a line called Edun (*nude* spelled backwards) an ethical fashion brand sewn by family-run businesses in Africa and South America using organically grown cotton fabrics. Edun was found in upscale department stores such as Nordstrom, Saks Fifth Avenue and Liberty London.

Matthias knew the trend toward environmentally sustainable fashion and socially responsible manufacturing was on the way up. She had just returned from a two-week series of meetings with the top management of UK based Marks & Spencer, a 520 store based clothing retailer that had pioneered and developed one hundred commitments on climate change, waste, sustainable raw materials, and health. Marks & Spencer successfully launched organic cotton, linen, and wool lines in 2008, along with

those made from recycled plastic products. Their public pledges on the environment included a series of green stores, carbon neutrality, and zero landfill goals. They were also relabeling washable merchandise to be washed at 30 degrees Celsius rather than the normal 40 degrees Celsius.

Matthias was also aware of the continuing consumer backlash against Wal-Mart brought on in part because of unfavorable media coverage of their work-force, environmental, local community, and global sourcing policies. She reasoned that if TRC could siphon off even a small percentage of Wal-Mart's price conscious shoppers who are also socially conscious, and also gain media attention for responsible practices, TRC could clearly have a winner on their hands. In recent months there was growing evidence that Wal-Mart itself was at least beginning to pay attention to some of its critics on environmental and social issues, while looking to increase its market share among more middle and upscale shoppers. They had introduced new product lines (organic fruits and vegetables) and policies designed to assist local businesses and competitors.



Industry analysts historically classified TRC's fashion profile as somewhat conservative and uninspiring, but the firm was in midst of a major upgrade in fashion branding and store and Internet merchandizing in women's, teens, and young children categories. Matthias realized that TRC would never be viewed as a luxury fashion goods retailer like Neiman Marcus or Bergdorf Goodman, nor as an off-price retailer like TJMax or Marshalls, but it could always be expected to be a major player, with its large store base located mostly in malls throughout the

country and loyal middle to upper middle income female shoppers.

Many individuals in TRC's top leadership personally shared many of Matthias's values. As early as 1991 the firm's current CEO had been on an advisory panel to the US Federal Trade Commission on "green marketing practices." Over the years TRC had taken the high road by not opposing unionization efforts of its own employees and by signing on to a number of corporate involvement programs to insure that many of their global suppliers were independently audited to assure that garments were made under decent working conditions.

Matthias thought there could be a large downstream payoff for her firm if it became known early on as a "triple bottom line" business that focused on the human rights of its employees and suppliers, the environmental impact of its operations, and of course, fiscal responsibility to its shareholders.

<b>Projected 2010 Income Statement (\$million)</b>	
Retail sales, net	20074.5
Cost of goods sold	11880.0
Gross margin	8194.5
Selling, general and administrative expenses	6637.5
Net interest expense	319.5
Bond premiums and unamortized costs	211.5
Income from continuing operations	
Before income taxes	1026
Income tax expense	355.5
Income from continuing operations	670.5