
COALATREE: GROWING BETWEEN THE CRACKS

Jonathon Wood and Jonathan Richards wrote this case 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.

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JM Fabrizi, the Marketing Director of Coalatree looked out the window at the sun finally rising over the mountains in the east. In his email inbox was a report on the company's growth. The numbers looked good, and Fabrizi felt like it was time for the company to take a more serious look at international expansion. The company's products had been well received in its home market of the United States, and Fabrizi was hoping to replicate that success abroad.

Coalatree had some experience with international business in the past, but that was largely through a retail network that the company eventually closed in favor of selling direct to consumers. The direct-to-consumer model worked well in the United States, but Fabrizi isn't sure that it's the best model for entering new markets in other countries.

Still, the opportunity was out there, and Fabrizi was certain that Coalatree was ready for the new adventure. The question remaining was which market to enter and how to move forward.

JOHN MICHAEL "JM" FABRIZI

Fabrizi has felt the call of the wild from a young age. The call ran deeply enough that, when he reached college, he majored in environmental studies with a minor in entrepreneurship. He knew he wanted to be part of a startup, but he wanted to work with a company that shared his passion.

While searching for his dream job, Fabrizi worked in the Westminster College Center for Entrepreneurship, developing and utilizing his knowledgebase to help others grow their businesses. In the summers, when the college saw limited enrollment, Fabrizi would take on additional jobs working with providers of outdoors gear—companies like Patagonia. There, in his spare time, he learned more about the importance of having the right gear to maximize enjoyment of the natural world.

With his dual background in the outdoors and entrepreneurship, Fabrizi was the perfect candidate to help a young startup company that was looking for its path.

COALATREE

Coalatree began in February of 2010 as the result of a vision from Jake "Charlie" Bessey. He imagined a lifestyle apparel and accessory brand that made products to meet needs from MTN2CITY (mountains to city). The idea was that Coalatree's gear would be equally useful on a mountain trail or in the urban jungle.

To further differentiate the brand and embrace a love of the outdoors, Coalatree's products were designed with sustainability in mind. The apparel and accessories are made almost entirely from recycled and sustainable materials while maintaining strict standards of quality and durability. Manufacturers are chosen based on sustainability guidelines, and most adhere to bluesign® sustainability standards. The company was founded with a goal to do no unnecessary harm to the planet or to the people producing Coalatree's goods, and that concept serves as a guiding principle in all the company's decisions.

Taking the belief in sustainability a step further, Coalatree was founded with a commitment to improve the socio-economic environment in the communities where it operates. In light of that commitment, Coalatree has an extensive set of give-back programs to positively impact the environment around Salt Lake City, Utah—the site of the company headquarters—and also to improve the situation for the underprivileged communities in the area.

The Rocky Road of Retail

For the first four years of Coalatree's existence, the company created its products and found success in the retail model of sales. The brand found a home in over 200 retailers in eight different countries. While many of the retailers were smaller shops, Coalatree also found footing with some larger chains like Blue Tomato, Backcountry, and Urban Outfitters.

Thanks to these retail relationships, customers often learned about Coalatree for the first time. Coalatree's own marketing efforts were minimal, so many people discovered the company's products for the first time while browsing in the retailers. Thanks to the high product quality, the company was able to sell its goods with some success. Because of this success, Coalatree invested considerable time and energy into building its relationships with retailers.

Unfortunately, retail was not the right trail for success. As economies in the various countries moved up and down, the retailers began paying late—sometimes not paying at all. Coalatree itself still had suppliers to pay, and the failure of many retailers to pay for their merchandise left Coalatree in a difficult position. Because the retailers were so integral to Coalatree's success, however, the company first tried to find ways to make things work.

Kickstarting a Revolution

Ultimately, as Coalatree became more of a bank and less of a supplier for its retailers, the company was forced to take a hard look at other avenues of reaching customers. By 2015, Coalatree was short on capital and unwilling to continue financing its retailers. The company pulled out of retail entirely and pivoted to focus on direct-to-consumer sales through online portals.

By that time, online-only retail had become a viable business strategy, and Coalatree embraced the opportunity to connect with customers more directly. This brought the chance to gain greater control over pricing and branding, strengthening the company's brand image and market recognition.

The break from brick-and-mortar retail was still hard for Coalatree. When the company split from its retail network, it was forced to leave behind some of the uncollected debts. This left the company in a difficult position for developing new products. To circumvent the issue, Coalatree turned to Kickstarter, releasing a product idea for an innovative adventure blanket, the Kachula 2.0. More than 3,500 people backed the product.

Leveraging the proceeds from the Kickstarter campaign, Coalatree continued to develop new products. The next product, the Trailhead Adventure Pant, was named the best hiking pant of 2017 by Outdoor Magazine and was Kickstarter's highest-funded technical pant ever. Products since have also been warmly received on Kickstarter, and all have exceeded their targets—often by significant margins.

To an extent, Kickstarter has become a test market and marketing channel for Coalatree, in addition to its role as a research and development funding platform.

Performing for the Fans

In general, Coalatree's products were well received by customers. While identifying the specific market segment was sometimes more complicated, available customer reviews indicated positive reception (see Appendix A for a selection of reviews). Based on feedback through social media and online product pages, Coalatree works to improve its design, materials, and appeal.

This appeal is reflected in the company's quarter million Instagram followers and by the thousands of backers to the company's product launches on Kickstarter. That is the success that Fabrizi is hoping to expand overseas.

SCALING INTERNATIONAL PEAKS

Early on, Coalatree found some success internationally through its network of retailers. As problems with those retailers arose, however, the company narrowed its focus to its domestic market in the United States. Despite that focus, the company remains open to interactions with international markets. Kickstarter campaign rewards, for example, are available to be sent internationally.

As Coalatree grows, Fabrizi's intention is to add international markets to the company's core focus. The markets would get localization of marketing materials and dedicated service and support personnel. In order to justify the expenses of expansion, Fabrizi needs to choose the right market to enter. Once a market is chosen, Fabrizi needs to decide on an appropriate entrance and distribution strategy.

Fabrizi has three basic strategies available, each with their own pros and cons. The first option is to find a distributor who will take over the full range of sales and marketing tasks. Second, they could expand their efforts with Amazon or other e-commerce platforms, counting on them to handle the localization and fulfillment. Lastly, they could expand their in-house team and maintain their direct-to-consumer approach, engaging a third-party-logistics provider to help with fulfillment.

As Fabrizi made the decision, he had to keep in mind several major issues. First, Coalatree was a small company with a track record of giving back a large portion of its profits. This meant that capital for investment was limited and costs would be a serious concern. Another area of concern was around branding. Coalatree had a focused vision on creating gear that was equally usable in the city or in the wild, and creating that gear in an eco-friendly way. To the extent possible, Fabrizi wanted to retain control of the branding and brand integrity.

Last but not least was the concern of profit. Fabrizi wasn't willing to expand company operations just for the sake of growth. If the expansion wasn't profitable, the company would just need to pull back again, and that would risk upsetting and alienating any new customers, leading to bad brand image. For that reason, Fabrizi was keeping a close eye on the potential margins of any growth effort (for more information about example margins, please see Appendix B).

Moving with Volume

Expanding through a distributor was the easiest way to get things done. The distributor would take care of localization, distribution, marketing, and sales. Some distributors would even take care of customer service, which would relieve the pressure on Coalatree for hiring personnel with localized experience, but all that expertise came with a cost.

Hiking in the Amazon

When Coalatree was founded in 2010, e-commerce was still a small segment in the market. People knew about Amazon and other online companies, but they weren't as pervasive. As Coalatree ran into difficulties with its retailer network, the rise in e-commerce provided a solution. With international expansion, "e-tailer" platforms like Amazon offered a potential solution to reaching across markets.

Making Its Own Trail

The third option for Coalatree was to find a third-party logistics firm that could handle international deliveries and then manage the sales, marketing, and distribution in-house. This could be done by opening localized websites and creating additional social-media channels in the targeted countries and hiring a small team to manage the new assets and channels.

THE NEXT GREAT ADVENTURE

Fabrizi pushed back from his desk and looked out at the mountains again. Coalatree's growth had been spectacular so far, and he was planning to double the company's business in 2020. To meet that goal, international expansion was the logical next step, but margins were already low. There wasn't much room for choosing the wrong place.

He needed to decide which country to enter and then map out the company's entrance strategy—taking into account which markets, audiences, and countries made the most sense. Included in the plan, he needed to determine the right model and the right partners—if any—for his strategy.

Coalatree's following on social media and success with crowd-funded product rollouts was proof that the company's concept had merit, but which market was ready for what Fabrizi had to offer? Aside from choosing a market, Fabrizi also needed to decide how to enter the market. Should Coalatree find a distributor, leveraging local expertise while jeopardizing already thin margins? Should the company try to handle the entrance alone by fashioning a localized webpage? Or was a 3rd-party model like Amazon a better way to reach the target market?

Fabrizi sat back and reviewed the information he had, one last time. Coalatree was ready for new growth, and the world was ready for a responsible producer of quality outdoors products. Fabrizi was looking forward to the next big adventure.

APPENDIX A: SAMPLE CUSTOMER REVIEWS

Reviews were sampled from social media posts, Amazon, and Google.

I loved the great customer service when I ordered the wrong size for my husband exchanging them with super easy and convenient and my husband is in love with the pants he says they are super light and comfortable yet durable.

I would have given a 5 star I love the concept of the blanket. What I didn't like was the hole in it. This isn't a cheap blanket and I had to stitch it up because I need it for a trip to Maine that I'm taking. I can't send it back because I need it asap.

Blanked showed up with stitching already coming out. I was hoping that with all other reviews being great and paying the fairly high price of \$70 that this would be an all-star blanked! I guess not :(

Every single item that I've purchased from Coalatree, I still have, and not for lack of use. Great customer service, knowledgeable employees, and a dedication to a great product that most companies don't have anymore.

Did not like this blanket- cost more than I think it is worth. Plus one of the snaps on the hood attachment was broke and therefore would not attach to the blanket.

Like the color but material was too thin and it cost more than I think it was worth.

Sent it back and would not recommend

Most of that was done in trailhead pants also. Not only do they go everywhere with me, mostly on, they do the job better than any other pants...by far. Gonna order a few more for some good friends and family that love 'em too.

These pants are everything!! Got them for hiking and fell in love. Now I just need to get some of the shorts too!!

These are very comfortable, seem very durable and extremely lightweight and flexible. I purchased my first pair from here and my second direct from their site. I love them, very stylish for casual wear and I use them to work out in. Expensive but so far seem like they're worth it.

This is ok... just ok. The material is awesome, the print nice and the idea is inspired but the execution is poor at best. Forget this being even remotely a functional poncho, the snap together hood is ridiculous and could have been fantastic with just a tiny bit more effort and thought. As it stands, if it rains and you have one of these, just hold it over your head, don't bother trying to sort out the hooded poncho. It's a nice picnic blanket... for \$80.00.

These shorts are perfect for outdoor adventures, lounging, or even exercising! I love the length for a guy or a girl, and they are super lightweight and breathable.

APPENDIX B: THE SKINNY ON MARGINS

In general, apparel and accessories are low-margin products because they tend to change hands several times throughout the supply chain before reaching the end customer. Additionally, clothing is often subject to style trends and seasonality, so the end retailer typically wants a high margin to allow for possible future discounts and sales.

A typical international distributor wants to purchase product at 35 percent of MSRP, giving them 65 percent to work with in order to place the product with retailers and account for potential discounting.

For a large brand selling \$30 hats, they can sell to a distributor for \$8-9 because they buy in bulk from the manufacturer. Since their cost is closer down to \$4, the big brand stands to make \$4-5, or around 20 percent margins. They then make significant profit because they are moving product in volume.

Coalatree, however, is very responsible about its sourcing and materials. Additionally, the company is a small brand operating in smaller quantities. All of this means that the company tends toward higher cost of goods sold than a big brand might experience. As a result, that same \$30 hat might cost more like \$7 from the original manufacturer. To then sell to the distributor for \$8 makes for a tight margin, and the company doesn't expect the volume to make up the difference.