
TAFT CLOTHING: TAKING INTERNATIONAL STEPS

Jonathon Wood, Shad Morris, 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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Kory Stevens, co-owner of Taft Clothing with his wife Mallory, looked around his small office with pride. It was a significant upgrade from working out of his own two-bedroom apartment. He'd never imagined that an upstart shoe company could go so far so fast, but after a recent fundraising round, things couldn't have looked better.

Of course, the company had come a long way in a short time, and there was a certain expectation of maintaining that growth trajectory. Now he needed to make another critical decision—one that would shape the fate of Taft Clothing far into the future. To date, Taft's success had almost entirely come from within the United States and Canada, but there was a significant social-media following from outside that bubble.

Fans of the shoe brand outside North America were expressing interest, but Taft's current logistical setup didn't really have provision for shipping anywhere else. Kory was ready and willing to make the changes and expand, but there were a number of issues to contend with. First on the list being the decision of where to go.

KORY STEVENS

Kory Stevens didn't set out to found a multi-million-dollar company. When he graduated from Brigham Young University with a Linguistics degree in 2013, he had offers for management-consulting jobs, but he and his wife, Mallory, didn't like the idea of him working 100 hour weeks. Instead, they decided to launch a clothing company, and Taft Clothing was born in their tiny rental apartment in Provo, Utah.

TAFT CLOTHING

They started out with one of the simplest articles of clothing a person can buy: socks. Early on, they realized that modeling bare socks was not impressive enough, so they took to buying the coolest shoes they could find and modeling the socks with the shoes. Then, because they were budget constrained, they typically returned the shoes after the photoshoot.

The budget also precluded hiring additional employees, so Kory and Mallory answered customer service inquiries on their personal cell phones and hand wrote thank-you notes to their customers while doing their best to outsource all the back-office operations of the company.

In surprisingly little time, the couple's Instagram page took off. This was a mixed blessing. Kory had never set out to make a footwear company—hence naming his company Taft *Clothing*, rather than Taft *Shoes*—but they quickly had 150,000 followers on Instagram who all knew them for footwear. Still, the marketing efforts for their socks had attracted significant attention, and Kory decided to capitalize on that.

Putting New Shoes On

Initially, the expansion into shoes didn't go well. Like most companies expanding into manufacturing, Kory looked to the low labor costs of Southeast Asia and China first. This exploration seemed to bring more problems than solutions. Initial samples came back with very poor quality, and Kory later found out that one of the manufacturers had actually defrauded \$40,000 from another client.

After some more research, Kory learned that some of the top designers in the world have their shoes made in Spain—but there was a catch here too. The factories in Spain were very serious about shoemaking. It was a craft that they passed down through the generations in a way that meant workers generally stayed on for life. The owner of the factory insisted that if Taft Clothing wanted to partner with the factory, Kory needed to demonstrate a similar commitment by visiting the facility. In person.

At that point, Taft Clothing still had just two employees—Kory and his wife Mallory—and Mallory was going to the hospital to deliver their second child when the factory's requirement came through. Following a successful delivery of the baby, the couple booked Kory a ticket to Spain from the hospital room.

The Flash Sale that Ignited Success

Discussions went well, so with the factory in Spain locked in, Taft needed capital to invest in production. To raise that capital, Taft issued a massive sale on their socks. Socks that normally sold for \$12 a pair were put online at \$20 for 10 pair. The sale was so outrageous that word of it quickly spread beyond Instagram. One of Taft's followers reposted the sale to Reddit where it quickly made the front page.

The sale was a bigger success than anticipated. It not only liquidated the entire sock inventory in a very short time, but also exposed a whole new audience to the company. Kory quickly took advantage of this and began posting designs and taking pre-orders for shoes that didn't even exist yet. Thanks to the company's niche designs and direct-to-consumer pricing, they sold roughly 11,000 pairs of shoes in the first year—and things have only gone up from there.

STEPPING INTO THE INTERNATIONAL SCENE

Despite targeting something of a niche market, Taft quickly became one of the top brands in boutique, designer shoes. Thanks to its quality product and excellent service record, Taft quickly expanded and grew, doubling or tripling its results, year over year, for the first several years of its existence. Maintaining that growth, however, has become a new challenge of its own.

Taft is very effective in its marketing techniques, so it has had great success with its targeted niche within the market. To expand its business while remaining true to its roots, Taft wants to focus its marketing efforts on reaching its target market in a broader range of geographies, rather than looking to broaden—and risk losing—its focus. In order to keep up its pace of growth, Taft is considering opportunities to expand beyond the North American bubble to tap the exponential growth potential in the rest of the world, but there are some inter-related issues that must first be addressed.

Where to Go

The big issue at hand was to decide where to go first. Kory knew of followers in five markets—Australia, Germany, the United Kingdom, France, and Sweden—but there were other, bigger potential markets to consider too. Taft’s success in the United States and Canada had earned international interest, and Kory knew that he could expand and count on having customers just about anywhere—they were already expressing interest online.

The problem was that the current logistical system didn’t handle international business very well. To keep prices down and customer satisfaction up, the company was already working with small margins and high material costs. In order to duplicate that model internationally, the company was going to need to overhaul its systems, and that likely meant an investment in infrastructure and increased overhead.

Why to Go

On the other hand, that new investment could pave the way for a marathon of growth and success. An increased customer base could fuel continued high growth that unlocked additional new markets for years to come. Additionally, while world markets were increasingly inter-related, expanding outside of the United States and Canada would mean a diversification of markets that could insulate against any localized economic fluctuations. As the manufacturer of a relatively high-end product, Taft had to be mindful of the risk that a local financial downturn could cause problems for sales volumes. International expansion was one way to help mitigate that risk.

What to Watch Out For

Additionally, Taft wasn’t completely blind about the challenges of international expansion. The company had largely focused its efforts in North America so far, but it had made tentative motions at responding to customers in the European Union in the past. Those efforts had largely ended in failure—which is why no large-scale effort had been made yet—but the company had gained some valuable experience through the process, and it was much more robust financially than it had been during previous attempts.

During those attempts, Kory had discovered several specific concerns that would need to be addressed before any expansion could effectively take place.

1. When the company shipped shoes to customers in the European Union, those customers had to pay customs and duties on the shoes because the shoes were shipping from the United States. In some cases, the customers had actually refused shipment, rather than paying the added cost, and the shipments had been returned to Taft. This resulted in additional cost and inventory for Taft. In some cases, the customers also felt that Taft had been deceitful despite the company’s best efforts to fully disclose the situation to the customers in advance.

2. Taft also struggled with undeliverable addresses when trying to ship internationally. Because the company’s shipping and logistics were built to support United States addresses, the different formatting of some countries was sometimes incompatible. For example, a batch of orders in Germany recently had several orders come back as having unresolved addresses. When the German postal service tried to figure out where to send the shoes, the addresses simply didn’t make sense, so they were returned without ever going out to a customer’s door.

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Commented [JR2]: Do we want to give this to the students or have them decide on their own. China, for instance, could be an interesting country to move into with it’s rapidly expanding middle class. Of course, it would come with a host of regulatory and cultural issues....

3. Language barriers are another concern—especially in light of the other potential issues. Taft prides itself on its high level of customer service. Kory firmly believes that a relationship with his company is a relationship with him personally, but that gets difficult without a shared language. If there's a problem with the shipment, like one of the two previous issues, Kory wants to know that his company can still take care of the customer.

Kory was confident that the social-media marketing Taft had done in the past would be enough to reach the target market in new countries, so his big concerns mostly revolved around the logistics and service angles of the expansion. He wondered whether the right combination of warehousing or factory-direct shipping could unlock the success he was looking for, but he wasn't sure what that combination was or if there was a better way to go altogether.

Whatever else happened, Kory was adamant that Taft wouldn't make a move until it could make the right move. He wasn't about to jump in early and do something mediocre that might impact the brand. In the world of social-media advertising where Taft dwells, ruining the brand would have serious repercussions.

TAKING THE BIG LEAP

Kory leaned back at his desk with a sigh. Taft's growth had been nothing short of miraculous, and he really wanted to keep the magic going. He knew international expansion was a quick, logical way to boost revenue, but margins were already low. There wasn't a lot of wiggle room for making the wrong step.

He needed to decide which country to enter first and then build the logistical plan to support the expansion—taking into account the different political, economic, socio-cultural, and technological factors that could help or hinder his efforts. Included in that plan, He needed to determine the right mix of market entrance strategies to guarantee a foothold.

Kory was certain that a stable entrance into one market could be quickly duplicated into several more, but he also knew that his investors would be watching closely. A failed expansion attempt would be costly for the growing company, and it might result in a moratorium on international efforts for a long time to come—long enough that someone else might step in and do what he was doing.

Kory checked his watch again. He had an hour left before he needed to head off to catch dinner with his wife and kids. He had some ideas forming in his mind, and there was no better time than the present to start putting them in order.

Commented [JR3]: This is reflected in Q8 of the background material. DO we want to give the students this much? I know there's a balancing act to be made here. Give the students everything Lory gave us so that their solutions are on-point but the experience is constrained, or give them less so that they have a broader experience but risk getting "solutions" that don't really make sense.

Your call. Let me know which way you'd like to position this.