

VEJA: SNEAKERS WITH A CONSCIENCE

Kim Poldner wrote this case under the supervision of Professor Oana Branzei 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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THE FIRST FIVE YEARS

Sébastien Kopp and François-Ghislain Morillion (see Exhibit 1), recent business graduates in their twenties, had traveled the planet looking for a cool way to do business.¹ In 2005, they settled in Brazil, where they founded Veja,² the first ethical sneaker company in the world. The Veja sneakers were made from wild latex sourced from the Amazon river area (Amazonia) to mitigate rubber tree deforestation, from Brazilian organic cotton to enhance biodiversity and from vegetable-tanned leather to prevent water pollution. These sneakers not only made consumers look good but also prompted them to take a closer look at bigger issues, such as the use of pesticides, genetically modified crops and fair-trade labor practices.

Kopp and Morillion had designed and produced several sneaker collections, had launched brand extensions (e.g. Veja Baby and Veja Kids), had opened offices in London and had established a distinctive presence online (see Exhibit 2). In 2005, the company started off aiming to sell its sneakers — with a conscience — in conventional stores, right next to iconic brands such as Nike. By 2010, Veja was selling more than 100,000 pairs annually, in 200 stores worldwide, including 80 in France. Customers included singer Lilly Allen and actress Angelina Jolie, whose baby had been recently photographed wearing Veja running shoes.³ Veja sneakers had been on display at the Ethical Fashion Show (EFS) in Paris, the biggest eco fashion event that brought together 100 brands from around the world. Perhaps even more impressive, Veja had created, from scratch, a global chain that emphasized solidarity and the environment and linked small producers in Brazil to the European catwalks.

¹ Their world journey is featured at the Juste Planet website; available at <http://www.justeplanete.org/index.php>, accessed on September 26, 2010.

² In Brazil, Veja means "look." For the company, "veja" symbolized looking around to develop a conscience about what is going on in the world.

³ Ana Santi, "From Fashion to Rubber," Born in Brazil: Bringing Brazil to the UK, blog entry, posted August 22, 2010; available at <http://www.borninbrazil.co.uk/2010/08/from-fashion-to-rubber.html>, accessed on September 26, 2010.

HOLD OR FOLD?

Kopp and Morillion had been at the forefront of a rapidly changing industry. Large companies wanted a share of the rapidly increasing market that valued ecologically and socially responsible fashion. Small ethical fashion brands such as Veja were hot buys. Since 2007, several small eco-fashion pioneers had been taken over by bigger brands. These deals enjoyed great media coverage and stirred vivid debates on the future of fashion.

New ethical fashion brands were popping up in attempts to copy Veja's successful business model.⁴ For example, France-based Loic Pollet, the founder of Sébola,⁵ who had launched his first collection in the fall of 2008, commented "Looking at success stories like Veja, we felt inspired to start our own brand." Since 2009, Canada-based Tal Dehtiar, founder of Oliberté, had begun working with producers in Ethiopia to launch a competing eco-sneaker.⁶ In March 2010, the sneaker brand Sawa shoes launched its first collection, made in Cameroon.⁷ Ethical fashion companies such as Simple Shoes⁸ and Patagonia⁹ had also added eco-sneakers to their offerings. Multinationals such as Nike and Adidas¹⁰ had also recently launched their own limited editions. For example, Nike's Trash Talk sneaker, co-developed with Phoenix Suns basketball star Steve Nash, was made from factories' leftover materials.¹¹ Veja faced even greater competition for its accessories, such as Veja's newly launched bags (see Exhibit 2). The competitors were keenly watching Veja's next move.

ETHICAL FASHION DEALS

On December 4, 2006, Timberland acquired Howies Limited (Howies), an active sports brand created less than a decade ago to serve as "a voice and mechanism for communicating a core environmental and social conscience, to ask a different question and show the world that there is another way to do business."¹² Jeffrey Swartz, Timberland's president and chief executive officer (CEO) welcomed Howies to the family: "I want people to believe in the power of the marketplace to make things better."¹³ Swartz also pledged that "Together we will leverage our complementary strengths to bring our brands to new consumers and new markets."¹⁴ Timberland's media release commended the ethical fashion brand for innovation, authenticity and integrity. The co-founders of Howies, David and Claire Hieatt, had built a company they were proud of. They would stay onboard to help the Howies brand grow within Timberland, citing their commitment to "make better and lower impact products, to give a better service

⁴ Eco Fashion World, "Guide"; available at <http://www.ecofashionworld.com/Brands/listA.html>, accessed on September 26, 2010.

⁵ Interview with Loic Pollet, October 1, 2009, used with permission; further information at <http://www.sebola.fr>, accessed on September 26, 2010.

⁶ Oliberté Limited, "This Is Africa"; available at <http://www.oliberte.com/>, accessed on September 26, 2010.

⁷ Sawa, available at <http://www.sawashoes.com/eng/>, accessed on September 26, 2010.

⁸ Simple Shoes, available at <http://www.simpleshoes.com/>, accessed on September 26, 2010.

⁹ Patagonia, Inc., available at <http://www.patagonia.com/web/us/search/sneakers>, accessed on September 26, 2010.

¹⁰ Kim Poldner, "Adidas Green," *Eco Fashion World*; available at <http://www.ecofashionworld.com/Trends/ADIDAS-GREEN.html>, accessed on September 26, 2010.

¹¹ Nike, "Steve Nash and Nike Turn Garbage into Trash Talk," media release, February 13, 2008; available at http://www.nikebiz.com/media/pr/2008/02/13_Nash.html, accessed on September 26, 2010.

¹² David Hieatt, "Exciting News," December 4, 2006; available at <http://www.howies.co.uk/content.php?xSecId=56&viewblog=557>, accessed on September 26, 2010.

¹³ PSFK, available at http://www.psfk.com/2006/12/ethical_entpre.html, accessed on September 26, 2010.

¹⁴ Fibre2fashion, "USA: Timberland Acquires Howies, UK-based Active Sports Wear Brand," December 4, 2006; available at http://www.fibre2fashion.com/news/company-news/timberland-company/newsdetails.aspx?news_id=27033, accessed on September 26, 2010.

and to do more good as we go about our business. Those are our rainbows to chase. They always will be."¹⁵

On May 18, 2009, "the world's largest luxury conglomerate [the Louis Vuitton Group], paid an undisclosed amount to secure a minority stake in Edun, a prominent ethical fashion line"¹⁶ founded just four years earlier by Ali Hewson and her husband, Bono, U2's lead singer and a political activist, with designer Rogan Gregory. Edun had used "star power and edgy designs to bring worldwide attention to important ethical fashion principles."¹⁷ Although critics wondered whether the acquisition could "green" the conglomerate, Louis Vuitton soon created a special bag for Edun (which sold for US\$4,900) and agreed to donate all proceeds from the bag sales to the Conservation Cotton Initiative — an organization advocating for the development of eco-friendly, organic cotton farming to improve incomes and increase economic growth.¹⁸ The bag was adorned with charms — distinctive bunches of ebony and bone spikes — that were produced in co-operation with Made,¹⁹ a fair-trade brand of jewelry and accessories expertly finished by craftspeople in Kenya; these bag charms were Louis Vuitton's very first "made in Africa" product.²⁰ In exchange, Bono and his wife appeared in the latest Louis Vuitton campaign.²¹

On September 10, 2009, the Vivarte Group (known for such brands as Naf Naf and Kookaï) partnered with Les Fées des Bengales; Vivarte's share remained undisclosed. The ethical fashion brand Les Fées des Bengales had been founded in 2006 by two sisters, Sophie and Camille Dupuy, and their friend Elodie le Derf, after a voyage in poverty-stricken yet beautiful rural India. Sophie Dupuy recalled the trip as having been a revelation. She was captivated by the brightly colored saris and equally struck by the trying work conditions and the know-how she observed in the traditional workshops. Les Fées de Bengales was mainly set up to work with women in India.²² Seventy per cent of its output was produced in India but the company had recently acquired new partners in Portugal, Tunisia and France to grow its output. Post-partnership, both design and production remained in the hands of the founders: "We are continuing with our strategy and now we even guarantee the eco-friendly production line."²³

THE ETHICAL FASHION INDUSTRY

The global apparel, accessories and luxury goods market generated total revenues of \$1,334.1 billion in 2008.²⁴ In 2005, the industry employed approximately 26 million people and contributed to 7 per cent of

¹⁵ David Hieatt, "Exciting News," December 4, 2006; available at <http://www.howies.co.uk/content.php?xSecId=56&viewblog=557>, accessed on September 26, 2010.

¹⁶ Ethical Style, "Louis Vuitton Buys Minority Stake in Edun," Ethical Style blog entry, May 18, 2009; available at <http://ethicalstyle.com/2009/05/louis-vuitton-buys-minority-stake-in-edun/>, accessed on September 26, 2010.

¹⁷ Ibid.

¹⁸ EDUN, "EDUN Launches the Conservation Cotton Initiative — Joining Forces with the Wildlife Conservation Society," news release, July 31, 2007, PR Newswire; available at <http://www.prnewswire.com/news-releases/edun-launches-the-conservation-cotton-initiative---joining-forces-with-the-wildlife-conservation-society-52788817.html>, accessed on September 26, 2010.

¹⁹ Made, available at <http://made.uk.com/>, accessed on September 26, 2010.

²⁰ Trend Hunter Fashion, "Tribal Designer Bags: The Louis Vuitton for Edun Keepall 45 Duffel Is Stunning"; available at <http://www.trendhunter.com/trends/louis-vuitton-for-edun>, accessed on September 26, 2010.

²¹ High Snobiety, "Louis Vuitton x Edun Keepall 45 Tavel Duffel Bag," September 20, 2010; available at <http://www.highsnobiety.com/news/2010/09/20/louis-vuitton-x-edun-keepall-45-travel-duffel-bag/>, accessed on September 26, 2010.

²² Les Fées de Bengale, available at <http://www.lesfeesdebengale.fr/v3/fr/la-marque/lhistoire>, accessed on September 26, 2010.

²³ Barbara Markert, "Vivarte Partners with Les Fées de Bengale," *Sportswear International Magazine*, September 10, 2009; available at <http://www.sportswearmet.com/fashionnews/pages/protected/VIVARTE-PARTNERS-WITH-LES-FES-DE-BENGAL-1877.html>, accessed on September 26, 2010.

²⁴ *Consumer Goods: Global Industry Guide*, Datamonitor, March 2009, accessed on September 26, 2010.

world exports.²⁵ Fierce competition and lack of supply chain transparency kept driving costs down — at a high social and environmental burden that included the use of child labor, unfair practices and disruption of natural ecosystems.

Ethical fashion was booming. Some predicted that, by 2015, certain practices, such as the use of organic cotton, would become mainstream.²⁶ Nearly every big label, including H&M, Guess and Banana Republic, had developed a “green” line. Nike and Adidas had integrated ethical principles into their core business, and leading retailers, such as Wal-Mart and Marks & Spencer, had made ethical sourcing a centerpiece of their new strategy.²⁷ For example, Wal-Mart had become the biggest buyer of organic cotton in the world. Although the quantity of organic cotton produced was still minuscule — in 2009, 175,113 metric tonnes of organic cotton were grown, representing 0.76 per cent of the cotton production²⁸ — the organic cotton segment was growing at an impressive 20 per cent per year.

Several established fashion brands were working together with non-governmental organizations (NGOs) to add organic fibers to their collections. For example, Vivienne Westwood²⁹ used her catwalk shows as platforms to campaign for less consumption and a more sustainable lifestyle. Since 2005, eco fashion designs had been shown during New York Fashion Week by such fashion brands as Versace, Martin Margiela and Donna Karan. Instead of using traditional fabrics, such as silk and cashmere, many fashion designers now preferred to use fabrics such as sasawashi (a Japanese fabric made from paper and herbs), hemp and peace silk (a silk produced in such a way that silk worms lived out their full life cycle).

In 2003, the Ethical Fashion Show (EFS) was launched in Paris. It was the first and biggest event to focus exclusively on ecological, socially responsible and environmentally friendly garment production. In 2008, EFS began expanding to other cities, from Milan to Rio de Janeiro. In April 2010, the Messe Frankfurt (also known as the Frankfurt Trade Fair) — the world’s market leader in trade shows, which hosted 31 textile fairs around the world — took over the EFS. The acquisition meant that Messe Frankfurt, the combined fair and exhibition company, now covered the world’s entire supply chain in the sector of textile fairs.

As the ethical fashion movement picked up,³⁰ it brought together like-minded stylists, activists, models, journalists, stores, celebrities and events. Eco boutiques on the web encouraged online shopping and drove change in the retail industry. Fashion schools stimulated their students to consider this issue through the introduction of special topics within the curriculum. Governments played their part by regulating destructive practices and transforming the mindset of consumers. NGOs developed systems to trace each item back to its origins. Others campaigned and lobbied to create more general awareness on ethical fashion and to help create eco fashion brands that could become successful examples of public-private partnerships.

²⁵ HM Customs & Excise, *Provided by the British Apparel & Textile Confederation (2005) provided to Defra: www.defra.gov.uk*, accessed on September 26, 2010.

²⁶ cKinetics, *Exporting Textiles: March to Sustainability*, April 2010; available at <http://www.ckinetics.com/MarchToSustainability2010/>, accessed on September 26, 2010.

²⁷ Organic Exchange, *Organic Cotton Market Report 2007–2008*; available at www.organicexchange.org, accessed on September 26, 2010.

²⁸ Organic Exchange, *Organic Cotton Farm and Fiber Report 2009*; available at www.organicexchange.org, accessed on September 26, 2010.

²⁹ Vivienne Westwood is a well-known fashion designer, whose four decade career remains highly influential, <http://www.viviennewestwood.com/flash.php>, accessed on September 29, 2010.

³⁰ Entrepreneurs in ethical fashion were from a variety of backgrounds. They ranged from NGO workers to business people, and only a small percentage had been trained as fashion designers. Many of them had altruistic reasons for starting their brand, such as to help a specific community in a developing country. In the beginning, the focus of these brands was often not on design, but more on survival and philanthropic goals. This focus changed as an increasing number of entrepreneurs hired professional stylists who created ever more beautiful collections.

The main actors in the ethical fashion movement, however, were the small eco-fashion brands, many of which had been born less than four years earlier. By 2010, more than 500 ethical fashion brands were in business around the globe. In the majority of the brands, the founder (and the founder's small team) worked directly with people in developing countries to source and produce socially and environmentally responsible fashion items. These ventures were no longer just designing an item to wear; they were crafting stories that signaled how individuals felt about big issues, such as poverty and deforestation. Wearing eco-fashions made a statement all right, but it was no longer just about the clothes — or shoes.

Eco-fashion was still in its infancy. Despite the financial crisis, sales of organic and ethical fashion were shooting up, growing by 50 per cent each year.³¹ Although the industry was small — eco-fashion represented just 1 per cent of the sales in the broader fashion industry — it was growing momentum. Eco-fashion was particularly popular among a segment known as “cultural creatives,”³² who were highly educated consumers who had an interest in spirituality, actively participated in society through voluntary work, advocated a conscious lifestyle and were motivated by a high need to strive for a better world. More than 50 million cultural creatives spent \$230 billion on everything from yoga gear to organic apples to hybrid cars. This trend was evident not only in fashion-forward countries, such as France, the United Kingdom, Germany and the United States, but also in BRIC countries, such as Brazil, which were characterized by increasing numbers of customers seeking a green lifestyle.³³ Awareness for eco-fashion brands was growing rapidly: 18 per cent of consumers had heard of eco fashion brands, three times the number four years earlier.³⁴

BUSINESS MODEL

Kopp and Morillion started their company without a clue about the fashion industry. After graduating from Paris business schools, Kopp and Morillion took off for a one-year journey around the world. They visited and studied sustainable development projects in different industries, from Chinese factories to South African mines to the Amazon rainforest, witnessing first-hand problems such as deforestation, exhaustion of natural resources and labor exploitation. When they returned to France, they knew they needed to act and to act now. They first tried consulting and recommended to companies such as supermarket Carrefour: “Stop charity, but instead have a close look within your company at what is wrong in the countries where you work and try to do something positive about it.”³⁵ Then they realized they had to do something themselves: “Let’s pick a product and try to put as much sustainable development in it as we can.”³⁶

Both Kopp and Morillion were sneaker addicts. They knew from the start what they wanted to create: good-looking shoes that had a positive impact on both the planet and society, as opposed to the negative impacts that characterized the big sneaker manufacturers. The two friends took the path of fair trade because they felt it would be the most effective way to integrate environment and dignity into everyday

³¹ Organic Trade Association, “Industry Statistics and Projected Growth,” June 2010; available at <http://www.ota.com/organic/mt/business.html>, accessed on September 26, 2010.

³² Cultural Creatives, available at <http://www.culturalcreatives.org>, accessed on September 26, 2010.

³³ Hartman Group, *The Hartman Report on Sustainability: Understanding the Consumer Perspective, 2007*; available at www.hartman-group.com, accessed on September 26, 2010. Consumers in many major markets want more green product choices. Studies show that 50 per cent of women want mass retailers to carry more green goods, and 11 per cent of these consumers see themselves as “extremely green” today, and 43 per cent say that they will be “extremely green” in five years.

³⁴ Forum for the Future, “Fashion Futures 2025: Global Scenarios for a Sustainable Fashion Industry,” February 24, 2010; available at <http://www.forumforthefuture.org.uk/projects/fashion-futures>, accessed on September 26, 2010.

³⁵ Interview with François Morillion, October 2, 2009, used with permission.

³⁶ *Ibid.*

products. They set out to “invent new methods of work.”³⁷ Veja was built on three main values: using ecological inputs, using fair trade cotton and latex and respecting workers’ dignity.

Getting Started

Kopp and Morillion’s journey around the world had opened their eyes to the rich variety of countries and cultures. They chose to operate in Brazil. Kopp and Morillion loved Brazil, its climate, its language and culture, and they imagined themselves living in Brazil. Here, they had met many people from NGOs and social movements working collaboratively to protect the sensitive Amazonian eco-system; connecting with these players, they felt, would help them scaffold the entire value chain.

After calculating the budget needed to produce their first sneaker collection, Kopp and Morillion were able to negotiate a bank loan. They then moved to Brazil, set up their company and began producing the collection. They presented their first sneaker collection at a conventional trade fair in Paris. Who’s next?³⁸ always had extra space available to feature new designers, and Kopp and Morillion managed to secure a spot to showcase their new sneakers. They learned on the go:

I remember running out the tradeshow to buy some paper on which we could write down the orders people placed. But then you talk to your neighbours and you pick up quickly how it works.³⁹

It was a Cinderella story. Kopp and Morillion identified the stores where they wanted to place their sneakers and then invited those buyers to see their collection. People came, loved the product and started buying. Their product was so successful that the first collection sold out, and Veja was able pay back its bank loan within a year. Veja had enough money to produce a second collection. Since then, the company grew ten-fold by following the same approach: they took little risk, produced small quantities and focused on the product. Morillion commented:

We had a plan for the first year, then we had a plan until we presented the shoe and after that we discovered a whole world we didn’t know about. We basically went learning by doing, making many mistakes.⁴⁰

Morillion was in charge of production and finances, and Kopp ran the commercial side of the company, but they did most of the work together. “We fight every day,” [Morillion] confessed. In the first few years...

...every day there was a new problem because we really had no clue about the shoe business. It was definitely the biggest challenge in building Veja, to learn how to make proper shoes.⁴¹

Kopp and Morillion initially spent half of the year in Brazil. Then they hired a shoemaker who had all the expertise they needed and who later became the manager of the Veja team co-located in Porto Alegre, the eleventh most populous municipality in Brazil, the centre of Brazil’s fourth largest metropolitan area and the capital city of the southernmost Brazilian state of Rio Grande do Sul. The Brazil-based team took care

³⁷ Veja, “Is Another World Possible?,” available at <http://www.veja.fr/#/projets/VISION-26>, accessed on September 26, 2010.

³⁸ <http://www.whosnext.com/>, accessed on September 29, 2010.

³⁹ Interview with François Morillion, October 2, 2009, used with permission.

⁴⁰ Ibid.

⁴¹ Ibid.

of quality, administration, logistics (e.g. shipping) and the entire raw material process of buying and paying the cotton, rubber and leather. The founders were in touch with the Brazilian team daily, via Skype, and traveled to Brazil four or five times a year to meet with their Brazilian co-workers. In addition, the team manager traveled to Paris twice a year to see the new stores where the sneakers were sold and to meet customers and colleagues in the headquarters in Paris.

Distribution Chain

Since the beginning, Veja had aimed to place its product in trendy sneaker boutiques next to other (non-ethical) brands. Veja did not see the need to promote its ethical approach to customers who were already convinced about the importance of purchasing ethical products. Instead, the company wanted to inspire customers who were accustomed to buying trendy sneakers. Veja sneakers sold in premium venues, such as the Galeries Lafayette in Paris and Rien à Cacher in Montreal. Veja sneakers were available in selected shops across Europe and Canada, but most sneakers were sold in France, Spain and the United Kingdom.

In France, Veja collaborated with the Atelier Sans Frontières association (ASF), which facilitated work for socially marginalized people,⁴² by helping them to build a new life and by promoting their social, professional and personal development. Since the founding of Veja, ASF had received all the finished sneakers from Brazil, stored them and prepared all the orders, which were dispatched to the retail stores where Veja sneakers were sold. ASF logisticians had recently started managing the functional portion of Veja's online store, the Veja Store.⁴³ ASF was in charge of printing, preparing, packing and sending all online orders.

Production

Veja sneakers were manufactured in a factory close to Porto Alegre. Most of the employees traced their roots to a community of German descendants who had arrived in Brazil at the end of the 19th century. All employees owned houses with running water and electricity, and 80 per cent were union members. Sixty per cent of the workers lived in the towns and villages surrounding the factory (the farthest being located 47 km away), while the remaining 40 per cent live near the factory. The factory pre-arranged coach services ensure all employees could travel safely and comfortably to work.

Veja complied with the core International Labour Organization (ILO) labor standards but felt more was needed to guarantee dignity at work. For example, Veja cared about workers' freedom to gather and uphold their rights, their standard of living and purchasing power, their social benefits and their rights of free speech. The average wage of the factory workers was approximately €238 each month, 16 per cent higher than Brazil's legal minimum wage for the shoe industry of €205 each month. In addition, Veja paid overtime and an annual bonus. The factory employees were entitled to four weeks of paid holiday, and they did not work on bank holidays. During the peak season, each employee worked a maximum of two hours extra per day, on average. Each employee contributed seven to 11 per cent of their salary to INSS (Instituto Nacional do Seguro Social, Brazil's governmental pension scheme), which provided an additional safety net for the employees.

⁴² Beyond this partnership with Veja, ASF tried to involve its employees in other tasks, such as collecting old sports material and computers and repairing them. All the work is adapted to the people depending on their skills and experience. The aim is to aid the employees in (re)building their lives and careers.

⁴³ Veja, <http://www.veja-store.com/>, accessed on September 26, 2010.

When Kopp and Morillion were in business school, had taken internships in investment banking and consultancy companies, where they learned about hard work and earning a lot of money. Morillion commented: In these places, we saw how people were stressed and didn't like their jobs, but just came home happy because of the money. This is definitely not our culture."⁴⁴ At Veja, employees started their work at 9:30 in the morning and left the office before 7 p.m. On Friday afternoons, everyone went home at 4:30 p.m., and the founders themselves often went out of town for the weekend. Keeping the balance between work and private life was at the core of Veja's approach of creating a company that cared about the employees.

Each year, each new member of the Veja team was given the opportunity to travel to Brazil to meet the producers. For the founders, involving their employees in the entire Veja story was essential, instead of simply letting them work in an office in the center of Paris. Morillion explained:

We travel a lot and meet many different people, but our employees don't get that chance. If we don't involve them in the whole process, they will get bored and might want to leave the company. [we created] different experiences for our employees and they loved it.⁴⁵

Certification

As part of the fair trade certification process, the main shoe factory in Porto Alegre underwent two social audits. The different departments of the factory and the fabrication workshops (which housed the cutting, sewing, soles, assembling processes) were audited in 2008 and 2009, in accordance with the Fairtrade Labelling Organization–Certification (FLO-Cert) standard requirements. The auditor raised 52 non-compliances in May 2008 and 16 non-compliances in February 2009; in April 2009, the certification of the factory was officially confirmed.

While the fair trade certification was increasingly important to consumers, for it was a means to a greater end, a starting point in Kopp and Morillion's path to improve the bigger picture. Veja sought to establish higher standards and strive toward loftier social and environmental objectives. To help the farmers gain additional credibility, Kopp and Morillion supported the cooperatives in the process of obtaining certification, but their personal relationships with the farmers extended beyond certification. The founders cared about social equity, and saw their venture as one means to improve farmers' lives by supporting traditional livelihoods.

Supply Chain

Kopp and Morillion created a supply chain that was based on sustainable relationships (see Exhibit 3). They viewed the company's connection to its producers as one not just of trade but of cultural exchange. Whereas the fashion industry was accustomed to contracting new parties as soon as a factory could deliver on time or cut costs, Veja tried to improve living conditions and to work cooperatively with supply chain to jointly develop the best product they could imagine. Veja bought raw materials directly from producers. The company paid a fixed price, which, though higher than the market price, was calculated by the farmers and allowed them to live in dignity. Veja was happy to pay extra. Kopp and Morillion viewed fair wages as a means of re-establishing social justice.

⁴⁴ Interview with François Morillion, October 2, 2009, used with permission.

⁴⁵ Ibid.

Cotton

The canvas for the Veja sneakers was organic cotton. With help from Esplar,⁴⁶ an NGO that had been collaborating with Brazilian farmers for 30 years, Veja started working with 150 families to grow cotton under agro-ecological principles (i.e. without the use of agro-chemicals or pesticides); Veja now sourced cotton from 400 families in the state of Ceará in northeastern Brazil.

Veja purchased 90 per cent of the organic cotton it used from ADEC, a new association of rural farmers who followed agro-ecological principles. The strong interdependence made Veja vulnerable. Changes in weather and natural disasters, such as insect plagues and violent rains, could deplete the supply of organic cotton. Production needed to adapt to the availability of organic cotton, which still varied considerably. Depending on the extent of the harvest, Veja sometimes needed to reduce the quantities of sneakers ordered by retailers.

Rubber

The Amazon was the only place on earth where rubber trees still grew in the wild. The survival of the Amazonian rainforest depended on sustainable management of its resources, including the latex extracted from rubber trees. Since the 1960s, the increasing use of synthetic rubber derived from petroleum had lowered both the demand and price for natural rubber. Thus, the inhabitants of the Amazon forest had moved from rubber tapping to more profitable activities, such as cattle-raising and wood extraction, which both required the clearing of land. As a consequence of deforestation, the soils were no longer protected by the cover of vegetation, leaving them vulnerable to accelerated erosion and desertification.

Inside the Chico Mendes Extractive Reserve, located in the Brazilian state of Acre, Veja worked with Amopreab⁴⁷ (Associação de Moradores e Produtores da Reserva Extrativista Chico Mendes de Assis Brasil), an association of seringueiros, or rubber tappers (see Exhibit 3). Beatriz Saldanha, who had lived and worked with the seringueiros for 10 years, helped Veja to make the connection. By 2010, Veja was working with 35 rubber tapper families. Paying a fairer price paid for latex not only guaranteed a better income for the rubber tappers but also provided an incentive for conserving the rubber trees.

Leather

After two seasons of relying on organic cotton and rubber, Veja started researching the qualities of leather and its impact on the environment. The typical tanning process used heavy metals, such as chrome, making leather one of the least sustainable raw materials. Chrome allowed for quick tanning, but was a dangerous product and accounted for three problems: 1) it affected the people who tanned the leather, 2) it polluted the water and 3) it was not biodegradable. Sustainable processes, however, were available. In Italy, for example, factories often used vegetal tanning techniques and worked with companies such as Gucci and Chanel. Veja searched for companies that worked with alternative tanning processes, eventually locating a factory that tanned leather the way it was done 100 years ago. At that time, tanners did not work with chrome, so going back to basics helped to overcome the problem. Veja collaborated with this traditional factory to produce only eco-tanned leather created from a vegetable extract such as

⁴⁶ Esplar, available at <http://www.esplar.org.br/>, accessed on September 26, 2010.

⁴⁷ "Portal do Meio Ambiente", available at http://www.portaldomeioambiente.org.br/index.php?option=com_content&view=article&id=2560:vencedores-do-chico-mendes-recebem-premiacao-em-dezembro&catid=40:comunicacao-ambiental-&Itemid=733, accessed on September 26, 2010.

acacia. To obtain a consistent color without staining, Veja used conventional dyeing approved by Eco-Label⁴⁸. To continuously improve the quality of the natural dyes, Veja undertook a collaboration with a Brazilian specialist in the field of vegetable and non-polluting color pigments.

Cost Structure

Veja's fabrication costs were seven to eight times higher than other footwear brands because its shoes and bags were produced in a principled way. Veja's price for organic cotton was twice the world market price. In 2009, Veja bought Brazilian wild rubber (produced according to FDL — folha desfumada líquida, or liquid smoked sheet) at €2.33 per kg. The price of planted natural rubber from São Paulo varied between €1.60 per kg to €1.90 per kg. The price of synthetic rubber, determined by the oil price, ranged between €1 per kg and €1.2 per kg.

A large part of Veja's current profits funded research and development (R&D), such as developing new applications to work with organic cotton, rubber and leather. Veja also invested in collaborations with a Brazilian dyeing specialist to help improve the vegetal tanning techniques. Veja had just started collaborating with other French-Brazilian brands, such as Envão and Tudo Bom, to work together on improving the supply chain and jointly sourcing raw material to be able to meet the quantity criteria. The Veja founders welcomed other small brands interested in sourcing from Brazil because Kopp and Morillion felt "it makes them stronger and reduces the risk for both them and their producers."⁴⁹

Zero Ads

Generally, 70 per cent of the cost of sneakers was dedicated to marketing. Veja, however, had a "no advertising" policy. Regardless, the company's products had been endorsed by the media and appreciated by the public since the company's creation. Veja benefitted widely from media coverage, blogs, forums and word of mouth. Morillion commented:

That is really the most rewarding thing in running this company, to see people walking down the streets on our sneakers. Last week I saw someone with a Veja bag, which is a very new product just in stores. He was not even a friend of us, but a complete stranger who had already picked up this product!⁵⁰

Zero Stock

The popularity of Veja's products paid off: most outlets had fewer Veja sneakers than they could sell. Veja did not produce extra; it produced only according to orders placed six months in advance. Veja was not about large volumes but about profitability — with a conscience.

⁴⁸ <http://www.eco-label.com/default.htm>, accessed on September 29, 2010.

⁴⁹ Interview with François Morillion, October 2, 2009, used with permission.

⁵⁰ *Ibid.*

Environmental Footprint

CO₂ Emissions

Veja looked at every aspect of its supply chain and adjusted the company's methods of transportation, organization, production and distribution. All Veja shoes were transported by boat from Porto Alegre, Brazil, to Le Havre in France. Upon arrival in Le Havre, the shoes traveled in barges along the canals to the Parisian suburbs. Veja's packaging was made from recycled and recyclable cardboard and it used shoe boxes that were sized down to optimize efficiency. Finally, Veja's headquarters used Enercoop (a green electricity cooperative) instead sourcing electricity from Électricité de France (EDF, the French national nuclear energy supplier).

Limitations

Veja was open, both about its limitations and its work to overcome them. Kopp and Morillion were open about the remaining shortcomings of Veja's production processes and explained how they kept working to become more sustainable. For example, because production was still low, Veja did not need many pairs of shoelaces and could thus not afford to create the laces from organic cotton. The moss used to maintain the ankle was a synthetic, oil-based product. The shoes' sole contains between 30 per cent and 40 per cent of rubber, whereas the insole contained only 5 per cent of rubber. The insole also had technical properties (i.e. comfort and resistance), which required additional components, such as synthetic rubber. The eyelets in the shoes did not contain nickel but were composed of metal whose origin was not controlled. The sneakers were shipped by boat from Brazil to France, but American and Asian stores and clients continued to be serviced by plane. Veja also aimed to recycle the sneakers, thereby further increasing their lifespan.

Message

Since day one, Veja had produced more than sneakers. It also crafted art events as a way of connecting to customers and inspiring its own employees. The company's communication team reached out, and Veja sponsored art installations made by local artists they befriended in the French and Brazilian urban art scenes.⁵¹ For example, for the 2006 Fashion Fair "Who's next?" Veja invited the art collective Favela Chic to perform. In an example of Veja's own creativity, São Paulo's 2006 ban on advertising inspired Veja to create an installation in the window display of the Parisian store French Trotters.⁵²

The most recent exhibition (in October 2009), suggestively titled "São Paulo, Mon Amour," showcased the vision of São Paulo artists on their city.⁵³ The pieces conveyed messages about social inequality and pollution in Brazil's capital (Brasília) and raised awareness about these issues. The exhibition, which was held in a public space in Paris, attracted 3,000 people in two weeks' time and was jointly sponsored by the Brazilian Ministry of Culture and the Municipality of Paris. Veja chose a discreet approach to promote the event by inviting the company's contacts, who would thus associate the brand with an interesting and beautiful exhibition.

⁵¹ Although the event was a co-production between Veja and several other parties, the company deliberately chose to not be visible in the event's promotion and publicity.

⁵² Veja, "Urban Archeology," March 25, 2009; available at http://blog.veja.fr/en/site/comments/urban_archeology/, accessed on September 26, 2010.

⁵³ Veja, "São Paulo, Mon Amour," blog entry, posted September 9, 2009; available at http://blog.veja.fr/en/site/comments/megapole_insensee_mon_amour/, accessed on September 26, 2010.

Art was also a driver in the various special collections Veja developed in collaboration with other companies and organizations. For example, in 2007, the company launched a collection designed by the young French fashion designer Christine Phung.⁵⁴ In July 2009, the Veja Kids, a line of sneakers for children, landed exclusively in Bonpoint stores around the world.⁵⁵ Using the motto "Sell your car, get a bike," the company launched the Cyclope collection in the Cyclope shop in Paris in November 2009.⁵⁶ In January 2010, the Veja+ Merci became exclusively available in the Merci store, a lifestyle and fashion emporium in Paris. All proceeds from the Cyclope collection were donated to charity.⁵⁷

THE DECISION

When Veja had started, Kopp and Morillion were in their mid-twenties. They had never worked for anyone else, commented Morillion:

By now I don't think we can ever work for another company, since Veja allows us so much freedom to do what we want and to strive for our dreams.⁵⁸

They had many ideas, but took things step by step and try to take as little risk as possible. At the moment they were focusing on their first range of accessories, like bags, wallets and computer cases. In another five to 10 years, they could save enough to open their own flagship store.

We're always thinking about the next project, but not really about the one after. It comes as it goes.⁵⁹

Kopp and Morillion's social change ambitions held strong. Veja's website portrayed the company as one drop in the ocean, offering the following call to action:

Day after day, prophets of all kind are pulling the emergency cord, the entire economy is turning green and sustainable-developmentising speeches are spreading around.

Actions remain scarce but words abound.

Beyond movies about the environment, beyond multinational companies building green windows to hide disasters, beyond the Copenhagen speeches filled with words and political promise.

And despite this green-fronted economy, let's try to offer a different vision which combines fair trade and ecology and links together economy, social initiatives and the environment.

A vision that proposes cultural change.⁶⁰

⁵⁴ Curitiba 75, "Veja," video clip; available at http://www.youtube.com/watch?v=h_qANp3g8U&feature=player_embedded, accessed on September 26, 2010.

⁵⁵ Veja, "Veja and Bonpoint, One to Watch this Winter," blog entry, posted July 17, 2009; available at http://blog.veja.fr/en/site/comments/veja_and_bonpoint/, accessed on September 26, 2010.

⁵⁶ <http://blog.veja.fr/fr/archive/200912>, accessed on September 26, 2010.

⁵⁷ Veja, "Veja + Merci," blog entry, posted January 12, 2010; available at http://blog.veja.fr/en/site/comments/veja_merci/, accessed on September 26, 2010.

⁵⁸ Interview with François Morillion, October 2, 2009, used with permission.

⁵⁹ Ibid.

⁶⁰ Veja, "Veja Is Just a Drop in the Ocean," <http://www.veja.fr/#/projets>, accessed on September 26, 2010.

Kopp and Morillion's vision for social change had already extended beyond their company. Kopp and Morillion coached new eco-fashion brands, which then started men's collections; they tried to give them direction:

Many people call us and we meet them and give them advice. What is lacking in the ethical fashion field, is strong men's brands and this is where Veja tries to make a difference.⁶¹

Kopp and Morillion also aimed to influence existing brands to convert to organic and fair-trade practices. Sometimes they felt it might be easier to change existing brands because they had already create the style that people wanted to wear, whereas ethical fashion brands often lacked the right aesthetics.

I think the ethical fashion world is still missing a bit of fashion and that's why it doesn't grow as fast as we all hope. Our product came at the right time at the right place. If we would have done the same product without the fair-trade and organic [angle], it might have brought us the same success. It's sad, but I think it is true.

They had a lot of work ahead: "Right now I still haven't found cool ethical T-shirts and jeans and I just hope that I can wear only ethical one day."⁶²

⁶¹ Interview with François Morillion, October 2, 2009, used with permission.

⁶² Ibid.

Exhibit 1

VEJA FOUNDERS



François-Ghislain Morillion	Sébastien Kopp
Production & Finances	Sales & Marketing
Born July 25, 1978	Born July 16, 1978
MSc HEC Paris, 2002	MSc DESS, 2002
Passion: electronic music	Passion: writing

Source: Prepared by the case writer on the basis of company documents and interviews. Photo credits: Veja, used with permission.

Exhibit 2

VEJA COLLECTIONS

2005: Volley 2006: Tauá 2007: Grama 2008: The Grid 2009: SP, MIA 2010: Bags, Veja+ Merci



VEJA MILESTONES

2005	2006	2007	2008	2009	2010
Feb: Launch Veja	Feb: Collaboration Agnes b.	June: launch Veja + Christine Phung	March: Launch Veja Kids	March: Launch bags+wallets	Jan: Launch Veja+Merci
Sept: Launch Veja website	July: Launch Veja blog	Sept: Veja @ Ethical Fashion Show (EFS)	Aug: London office open	Sept: Expo SP, Mon Amour	Feb: Veja+Bonpoint Merci
Nov: Launch Veja Baby	Nov: 1 st rubber collection	Dec: Veja lands in Madrid	Oct: Launch online store	Nov: Launch Veja+ Cyclope	May: Snippet expo London

ETHICAL FASHION MILESTONES

2005	2006	2007	2008	2009	2010
Ethical Fashion Forum is founded in the UK Launch of Made-By	1st Esthetica in London	Organic Exchange turns 5 years old ¹	5th EFS in Paris	EFS launches in other cities like Milan Launch NY Greenshows and TheKey.to Berlin	Messe Frankfurt acquires EFS

Source: Prepared by the case writer on the basis of company documents and interviews.

¹ http://cogent.controlunion.com/cusi_production_files/SISI_files/FL_011210114219_Market_Report_08_Executive_Summary.pdf, accessed September 28, 2010.

Exhibit 3

VEJA'S SOURCING OF COTTON, RUBBER AND LEATHER



The state of Ceará in northeast Brazil has vast wealth inequalities, fragile soils and a tendency toward drought. It also works with a producers' cooperative in Paraná, a relatively more productive area located in the center of Brazil. In contrast to the predominant monoculture farming system, a group of small producers grow cotton and food plants as rotational crops. For these small-scale farmers (one hectare of land on average), farming development goes hand-in-hand with environmental protection. But there were setbacks. After a caterpillar attack, producers panicked and decided to spray pesticide to protect their harvest. Veja had committed itself to purchase the harvest and could not ask the producers to lose their entire harvest. Therefore, these 12 tons of "infected" organic and ethical cotton were used to make the shoes' lining and as a double layer for the *Projet Numero Deux* accessories (see <http://www.veja.fr/#/projets/Coton-15> for the process). The photo at left shows the Porto Alegre team manager checking the cotton.



Seringueiros (derived from the word *seringueira*, or the rubber plant) extract natural latex directly from the trunk of the rubber tree (*Hevea brasiliensis*), by making small cuts in the bark. At least five hours are needed to fill a tiny container with latex, and two years must pass before new cuts can be made on the same tree. To process the liquid rubber into sheets that can be used to make rubber soles, the seringueiros use a new technology developed by Professor Floriano Pastore of the University of Brasília, called FDL (*folha desfumada líquida*, or liquid smoked sheet). FDL allows the rubber tappers to transform latex into rubber sheets without any industrial intermediary processes. Once extracted, filtered and purified, the latex is stretched and "spread" in six layers onto canvas of organic cotton, and then subjected to a curing process in the open air, which allows it to dry and results in a high-quality product. To produce a pair of slabs, the seringueiros must first tap into material extracted from at least 10 rubber plants. The FDL technology permits the seringueiros to sell semi-finished products and receive a higher income. The sheets of rubber are directly sent to the factory and shaped into soles for the Veja shoes. Not only does the production of vegetable rubber represent an instrument for environmental protection, but it also provides an economic alternative for seringueiros, who wander the heart of the Amazon forest during six months a year engaged in the extraction and processing of this material. This practice safeguards the culture and traditions of autochthonous populations, who are the true guardians of the forest (see <http://www.tyresonfire.com/amazonlife.com/index.php?id=60> for a clip of seringueiros at work). The photos at left show a seringueiro and Beatriz Saldanha, the woman who connected Veja with the seringueiros.



Leather is typically not made under fair trade principles because it is difficult to work directly with leather producers and it is often difficult to confirm the leather's origin and the cattle's treatment. The breeding of cattle also requires vast fields and the relevant financial inputs. Veja chose not to marginalize leather producers but instead sought to make a positive change within this specific industry. Veja ensured that the leather it sourced did originate from the cattle from the Amazon, where cattle breeding remains a main contributor to deforestation. The company's main objective was to be knowledgeable and in control of the entire leather supply chain, from the cows' nurturing and living conditions to the tanning and dyeing process of the leather. Veja used only eco-tanned leather created with vegetable extracts such as acacia. Unlike modern tanning procedures (which use chromium and other heavy metals), ecological tanning decreases pollution in the water surrounding the tannery plant.

(See <http://www.veja.fr/#/projets/Cuir-14> for a video clip of the process). The photo at left shows one step in the leather veggie-tanning process.

Source: Prepared by the case writer on the basis of company documents and interviews; photos used with permission.