

Case 8

United By Blue

Can an Eco-Friendly Apparel Company Afford to Stay Mission Focused in the Face of High Costs?

Brian Linton grew up in Singapore and Japan and, even as a child, was fascinated by water, particularly the ocean. “I was fortunate to travel the world and go to a lot of different beaches,” he says. “I loved all things aquatic and had about 30 fish tanks in my room. These experiences put me in beautiful locations as well as places that were so littered with trash that you couldn’t see the sand. Seeing trash and polluted oceans was especially discouraging for me.” In 2006, while still a student at Temple University, Linton started Sand Shack, a business that sells beach-themed jewelry to stores along the East Coast (and that he still owns). He donated a portion of the company’s sales to nonprofit organizations dedicated to ocean conservation but wanted to “do something that was more concrete and tangible than giving money to nonprofits,” he says.

In 2010, Linton launched United By Blue, an eco-friendly apparel company, with the idea that this business would be different. The name Linton gave his company is inspired by his belief that water unites all of humankind. “The water of the world is what we all need to live,” he says. “It’s what unites everything, and it’s often the most mistreated part of the world.” In fact, people dump an estimated 14 billion tons of trash into the earth’s oceans each year, and Linton wanted to do something about it. Rather than merely give away money that may or may not accomplish worthy environmental goals, United By Blue, which is based in Philadelphia, would associate a tangible environmental action for every sale that it makes. Linton pledged to sponsor cleanups that would remove one pound of trash (which primarily is plastic) from the world’s oceans and waterways for every product that United By Blue sells. “Our cleanups are the bedrock of our company and allow us to engage with thousands of volunteers and inspire participation in the ‘blue’ movement,” he says. So far, the company has hosted nearly 100 beach or waterway cleanups and has removed more than 140,000 pounds of trash.

Two years after starting United By Blue, Linton was analyzing the company’s financial statements and noticed something alarming: Its wholesale gross profit margin had shrunk from 60 percent to just 15 percent, a pattern that was unsustainable. T-shirts are the company’s best-selling products, and customers who believe in the company’s mission are buying them through retailers such as Urban Outfitters, Whole Foods, and other small, independent shops for a retail price of \$29.50. United By Blue sells the shirts to retailers for \$14.50, but some of the company’s larger customers receive discounts and pay less. The environmentally friendly T-shirts, which are produced

in India, cost more to make and package than standard T-shirts because Linton used softer, more expensive slub cotton rather than the traditional jersey cotton that most companies use to make T-shirts. He also insisted on avoiding the use of plastic in any of the company’s packaging because of its negative impact on the environment, choosing instead to use biodegradable packaging made from banana fiber and paper hangtags made from recycled elephant dung that is infused with bluebell flower seeds so that customers can actually plant the tags and grow flowers. The banana fiber wrapping alone costs 50 cents each—50 times the cost of a plastic bag. In addition, each cleanup that United By Blue sponsored costs between \$2,000 and \$5,000, a significant expense for a small company with annual sales of less than \$1 million.

Linton turned to his spreadsheet and calculated that he would have to raise its wholesale price to \$16.50, which in turn would mean that retailers applying the standard markup would charge customers a final price of \$34 for United By Blue T-shirts. He realized that raising the wholesale price to \$16.50 probably would cause two of the company’s largest customers, Urban Outfitters and Whole Foods, which together account for 25 percent of United By Blue’s sales, to drop the shirts. “Large retailers want discounts to maintain [gross profit] margins around 60 percent,” he says. Losing major retailers also would make selling to small, independent shops more difficult as well. “[Having big-name retailers as customers] helped us build legitimacy,” says Linton. If he raised prices, the company’s small retail shops might drop the line as well. If he did not raise prices, he estimated that United By Blue would run out of cash in less than six months. Another option is to reduce the shirts’ cost by using less expensive plastic bags and hangtags and traditional jersey cotton, which also has a negative impact on the environment. United By Blue has 50 cleanup events planned for the upcoming year, and eliminating them would save between \$100,000 and \$250,000. However, all of these changes would go against the company’s mission and the reason that Linton started United By Blue in the first place. “Our cleanups are the bedrock of our company,” he says. “My grand vision is to use the power of business to leave a positive impact on this world.”

Questions

- C8-1. What risks does United By Blue face if Linton raises the prices of its T-shirts? What risks does the company face if it fails to raise its T-shirt prices?
- C8-2. Should Linton abandon United By Blue’s mission as an active, eco-friendly apparel company to lower the cost of the company’s T-shirts? What are risks of taking this approach?