TOMS SHOES:
PHILANTHROPIC CAPITALISM

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OVERVIEW

TOMS Shoes is a for-profit shoe retail company that was established in 2006 with the stated goal of alleviating poverty and improving the lives of children around the world by donating shoes to those who need them. The company believes that by donating shoes, children will be healthier and have access to education -- not only because healthy children are more likely to succeed in school, but also because in many countries shoes are required to attend school. In fact, TOMS is short for “tomorrow” or “shoes for a better tomorrow” – a name that reflects their desire to improve the futures of these children.\(^i\) The company built into its business model a philanthropic component in which shoes are sold to consumers in developed countries and for every pair of shoe sold, the company promises to donate a pair to a child in need in a developing country – One for One™. Blake Mycoskie, now 35, is the founder and Chief Shoe Giver of the shoe company and refers to his model as “philanthropic capitalism” – a way to make money while still making a difference in the world.\(^ii\) Mycoskie, a seasoned entrepreneur, came up with this innovative idea while traveling in Argentina and witnessing first-hand the extreme poverty that existed in the rural regions of the country. The company has been a success with over $45 million in revenue and 1,000,000 pairs of shoes donated since its start, thanks to the growing number of socially-conscious consumers.

This case study will look closer at the details behind Mycoskie’s business model and the strategies employed by TOMS to promote CSR. In particular, the signaling methods used by TOMS to convey its credibility to consumers will be closely examined. Through this examination, both the strengths and weaknesses of TOMS approach will be revealed for further discussion.
BACKGROUND AND HISTORY

Prior to TOMS, Mycoskie had 10 years of entrepreneurial experience starting a handful of other companies. He began his first start-up as a sophomore in college, a college laundry service and after just one year the company was generating nearly $1 million in sales. Recognizing his talent, he soon dropped out of college to pursue his business ventures. These included an online driver-education program, a reality-TV network, and an outdoor advertising company. Based upon his history, it is clear that Mycoskie draws his inspiration from building successful businesses, rather than from philanthropic pursuits.

In 2006, at age 29, Mycoskie took a vacation to Argentina and it was not long before another entrepreneurial idea began to formulate in his head – the idea of TOMS Shoes. Early in his trip, he learned of the Argentine national shoe, the alpargata, a casual flat made of canvas or cotton and the sole made of rope or rubber material. The versatility of the shoe became apparent as he began seeing it everywhere – in the cities, on the farms, and even in the night clubs. He started to think about the possibility of a similar shoe appealing to the US market. However, it was not until the end of his trip that his idea was complete.

While sitting in a café, he came across a woman who was visiting the country as part of a charity group delivering shoes to children in need. After discussing the program further, he decided to accompany the group on their next shoe drop to a local village. Through this experience he learned that because the organization depended on donations there was not always enough shoes for all of the children to receive a pair or the sizes were not always what was needed – the organization had little control over their supply of shoes. It was then that he fully realized the
idea of TOMS – he would sell shoes in the US market and for every pair sold, donate a pair to a child in need. The shoes would be modeled after the traditional Argentine alpargata, except would use new fabrics with new colors and patterns to be more stylish so as to appeal to fashion-conscious consumers, as well as include a soft leather insole and a sturdier rubber sole. Mycoskie reasoned this as a more sustainable giving model, because by not having to depend on donations it would keep a constant supply of appropriately sized shoes flowing toward children in need.

Soon after, Mycoskie began traveling around Argentina looking for local shoemakers that would work with him in developing these shoes and this idea. After many rejections, he finally was able to convince one shoemaker to partner with him to make an initial batch of 250 shoes to bring to the US and assess whether they would actually sell.

Mycoskie returned to his Los Angeles apartment with the 250 shoes and again ran into trouble. Retail stores were not responding as he had expected, so he finally moved on to smaller local stores and landed a deal with American Rag. After hearing Mycoskie’s idea, they agreed to
sell the shoes, recognizing that they could sell both the shoe and the story. Not long after that initial placement, the New York Times heard of Mycoskie’s plans and interviewed him. The article was printed and business took off – that weekend the company received orders for 2,200 pairs of shoes. Having the publicity come from a newspaper article, a media that is relied on as honest information by the public, rather than a marketing campaign, allowed TOMS to convince consumers to trust their cause and purchase their shoes. There were not enough shoes made yet though, so Mycoskie returned to Argentina to develop additional relationships with shoemakers to be able to meet the soaring demand for the shoes. With this new guaranteed market, more shoemakers were now willing to work with him. Today, TOMS shoes are produced in Argentina, Ethiopia, and China.

The goal was to sell 10,000 pairs of shoes before donating any. This milestone was reached within the first year of the business. Mycoskie took his parents, siblings, and close friends on a 10-day shoe drop tour of Argentina, working with local community programs to ensure that correct shoe sizes were manufactured for the children. After returning from this first shoe drop and realizing the success of his idea, Mycoskie sold the other business he was running at the time in order to pursue TOMS Shoes further and to get capital with which to hire a professional staff. With a new team of industry experts, TOMS scaled up their operations. Today, over one million pairs of shoes have been donated in over twenty countries. The 1,000,000th shoe was given away in September 2010, just four years after the launch of the company. The company’s cause marketing has truly been a success.
TOMS created a non-profit subsidiary, “Friends of TOMS”, to be responsible for coordinating shoe distributions around the globe. It is fully supported financially by TOMS in that the costs of their operations are built into the cost of shoes sold. Retail prices of shoes range from $29-$98, while the cost of making the shoes is estimated to be less than $5, so the company turns quite a high profit on every pair of shoe sold allowing them to both operate a successful business and fund their non-profit. TOMS could have easily been directly in charge of the donations, but may have chosen this strategy of developing a non-profit arm to try and increase the credibility of the company. First, since revenue is getting cut into in order to run the non-profit, it convinces customers that because the company is sacrificing a portion of its profit, it must be doing something good. Secondly, it is more likely that people believe that a non-profit donates shoes, rather than a for-profit business. And lastly, this approach may make it appear as if the
whole organization is a philanthropic non-profit; in turn, people are more willing to pay $50 or $60 for a simple, slip-on cloth pair of shoes when they believe that the money is going toward a charitable cause.

Very little information is publicly available about the details of TOMS’ operations and the shoe donation process. There is no indication of any third party audit or independent records, and in fact even the TOMS report itself is very scant (see Appendix A for TOMS report) weakening TOMS’ credibility. However, TOMS’ website does disclose to its customers that the distributions of the donated shoes are actually carried out by non-profit organizations and non-governmental organizations outside of TOMS. It details how humanitarian groups apply to become a “Giving Partner” of TOMS and that Friends of TOMS screens and selects those groups that prove they are working locally in impoverished communities and have “deep experience and a long-term presence in the countries and communities they serve”.xv This helps to provide validation to consumers that TOMS’ donations are both authentic and beneficial, because independent groups with expertise in humanitarian aid are the ones identifying the communities in need and conducting the donations. Customers are better assured that the communities that have the most need are receiving the assistance as well as the appropriate shoes.

The website goes on to describe that by partnering with organizations already working in these communities on other development projects, children receive shoes as part of a larger health and education program. Furthermore, once a community is identified, TOMS states that they continue to donate shoes to that community as the children grow out of their shoes. This statement allows customers to further justify their purchase because it means that the donation is not just a one-time hand-out, but part of a more holistic long-term assistance program that better
addresses the underlying problems of poverty. It gives customers confidence that there is a bigger impact in these communities beyond just receiving shoes. But that is all it is, a statement. There is no other information provided about these partnering organizations. In fact, it is difficult to even find who these Giving Partners are as they are not readily available on the website. To better prove these partnerships, TOMS should at least provide a quick link that lists their Giving Partners, the work they do, the communities they serve, and evidence of the impact they are having in these communities. It would make most sense for this to be on the Friends of TOMS website, except that they do not have one, which makes this all the more troublesome for customers. This may cause them to question whether TOMS even has a non-profit in the first place, so the company needs to start by first developing a website for Friends of TOMS in order to better ensure its customers that it operates in the way it claims.

Interestingly, after conducting a more thorough search, some Giving Partners can be found. Major organizations include World Vision and Partners in Health (a public health non-profit founded by Dr. Paul Farmer, a world renowned physician and anthropologist from Harvard University). Working with such prominent organizations gives TOMS’ business model more credibility. Since people know the humanitarian work of these groups, customers may feel reassured that shoes are actually being given to children in need. Even though World Vision may have some critics, many people still have confidence in their work. Friends of TOMS also works with other smaller organizations, as long as they meet their criteria as listed on the application. Although, these groups are more difficult to track down.

TOMS attempts to bring more credibility to the company by being transparent with the online application that Giving Partner candidates complete, allowing the public access to it. However,
upon closer examination, the application and process for becoming a Giving Partner prove to be very insufficient. Currently, the questions on the application are very basic; there are only thirteen questions and most are either answered ‘yes’ or ‘no’, or are fill in the blank (See Appendix B). This does not tell TOMS’ supporters much about the applying organization, their work, their commitment, or their success. Additionally, there is no information that discusses whether TOMS verifies that what the organization submits is accurate. A more extensive application and knowing that a background check of the applying organizations is performed would help supporters determine whether TOMS is selecting suitable partners that are qualified to perform effective humanitarian work. Also, once an organization is selected as a Giving Partner, there is no mention of whether TOMS performs monitoring of the organizations’ work throughout the partnership to ensure that they are carrying out the shoe drops and conducting an effective program. Sharing a monitoring report with the public would further allow TOMS’ supporters to verify whether these organizations are carrying out successful donations and programs.

TOMS also claims that they are responsible in their giving, requiring Giving Partners to make sure that local businesses will not be negatively affected by TOMS donating shoes in their communities. In their 2011 Giving Report, TOMS’ states that, “[they] are considerate of local businesses. Going in and trampling the local economy would be downright un-TOMSy. [They] always try to make sure there won’t be any mom and pop shoe makers put out of business by [their] giving activities”\textsuperscript{xvi}. Yet, TOMS does not specify how they evaluate this. Just because an existing company is not being pushed out, that does not mean that they are not suppressing the
ability for a local entrepreneur to establish a competing business. While these effects may be harder to measure, their impact cannot be ignored.

An alternative for TOMS might be to work to help establish and develop the local industry in struggling economies, rather than just providing free handouts. TOMS’ model could be that instead of partnering with non-profits and NGOS for donations, they work with local shoe businesses to help them sell their shoes, offer a fair wage and decent working conditions. This would please consumers because, as the Cone/Echo Global CR Opportunity Study found, the most important issue consumers feel companies should address is economic development.xvii There are other shoe companies that have tried to address these issues, such as SoleRebels. SoleRebels is an Ethiopian business employing around 100 workers, producing handmade, fair-trade footwear. The company pays three times the typical wage in Ethiopia, and also covers healthcare, schooling, and maternity costs.xviii This type of business model helps to build the community by providing a way for locals to earn their way to a better life, rather than just being given a handout.

PUBLIC CREDIBILITY & MARKETING
The main avenue that TOMS focuses on to achieve its credibility and signaling goals is through its marketing strategies. In fact, the whole One for One™ idea that the company’s existence depends on is the most significant element of its marketing campaign. To achieve this goal, TOMS relies primarily on viral advertising and other word of mouth techniques. This helps build trust in the mind of the consumer, since hearing about TOMS’ cause through friends and trustworthy sources makes the company seem more genuine than a company participating in
traditional forms of advertisement. They are able to thus portray themselves as a company with a worthy purpose, rather than simply an active enabler of consumerism. Whether or not the sentiment is justifiable, the grass roots methodology employed by TOMS certainly boosts their credibility among consumers.

The company takes several approaches to garner recognition and publicity without the use of traditional advertisements. Some examples include Facebook, school campus clubs, attending conferences, and hosting special events. Events like ‘A Day without Shoes’ encourages people to not wear shoes for a day so they can experience what it is like to not have shoes, while ‘Style your Soles’ allows groups to get together to design and personalize their own pair of shoes by painting them. Not only do events such as this act as publicity, but the results can also serve as miniature agents of further advertisement, as the unusually-decorated shoes -- or lack of footwear altogether -- attract additional attention from peers. Recently, TOMS rolled out a new marketing strategy called ‘Giving Trips’. Every week, a customer is selected to go on a shoe drop and witness the donation process first-hand. This signals to consumers that TOMS must be genuine in their charitable claims, otherwise they would have nothing to show the winner. In a way they are attempting to gain the authenticity of undergoing an independent audit, except with the caveat that it is done by non-auditors who have already shown favorable bias towards the company by buying a pair of shoes. While it may not stand up to any rigorous standards, to the casual consumer it only increases the sense of goodwill and openness that the company would like to portray.
However, many critics of TOMS feel that they use poverty as a marketing tool, therefore exploiting their beneficiaries. They see One for One™ just as a marketing ploy to get people to buy shoes, as opposed to a sincere effort to alleviate poverty. TOMS may be manipulating the fact that consumers today are increasingly socially-conscious. In fact, up to 93% of consumers state that they would be more likely to purchase an item that supports a cause. Complementing this is a consumer trend towards making charitable contributions publically recognizable. While donating to other charities may have a more significant impact in fighting world poverty, wearing TOMS shoes allows consumers to visually market themselves as supporters of humanitarian efforts. By overtly signaling their devotion to the cause, they also exert social pressures on their peers to follow similar behavior.

**GIVING REPORT AND AWARDS**

Aside from their general marketing strategy, TOMS has also been able to supplement its brand promotion through the distribution of company reports and acceptance of independent awards. As a young company established only in 2006, it was not until 2011 that TOMS released their first organizational report. This “Giving Report” discusses TOMS business model, the reasons behind their actions, and their charitable accomplishments since the inception of the company. It serves as a signalling device to create a feeling of transparency in regards to TOMS’ business practices, instilling a sense of trustworthiness. TOMS makes the report available on their website and presents a user-friendly experience, with trendy graphics and fonts. This makes it easily accessible to the general public, and specifically to youth and young adults that comprise TOMS core audience. Although it is useful that they are able to provide some information, the report itself is actually completely inadequate. The report focuses on highlighting the people
who have been given shoes, through pictures and anecdotal stories. While these are nice, “feel good” depictions, they do not provide sufficient details into the specifics of the company or the true impact of their giving efforts. As a growing number of consumers are willing to do in-depth research on the products they are paying for, it will be increasingly important for the company to provide useful data.\textsuperscript{xx} If TOMS wants more customers to place their faith in them, they need to deliver more information about the company. In particular, they should release financial information: what percentage of the $60 retail price goes toward the non-profit, what are their manufacturing costs, and what it costs to conduct a shoe drop. Yet, since they are a private for-profit company, they may be hesitant to reveal the extent of their profits if they fear that they may warrant consumer backlash. For example, if consumers were to learn that only a few dollars of each purchase went towards the donations, it would make it much harder for them to justify the price.

In addition to that published report, TOMS has been able to signal their excellence and integrity through various awards that they have received. Some of these awards include the 2007 People's Design Award from the Cooper-Hewitt's National Design Museum, and the 2009 Secretary of State’s Award for Corporate Excellence. The ACE award, established by the State Department in 1999, celebrates companies’ commitment to corporate social responsibility, innovation, exemplary practices, and democratic values worldwide. On top of these company awards, Mycoskie was honored with an invitation to become a member of the Clinton Global Initiative in 2007. These distinctions help to lend additional credibility to TOMS, although it is not clear how stringent the requirements are to earn such accolades.
EFFECTIVENESS

Regardless of the success that TOMS marketing strategy has achieved, questions remain about how effective the company and its business model are at achieving the goals they set out to accomplish: improving the lives of children, making a better tomorrow, and alleviating poverty. To do this by donating shoes, the company is implying that shoes are one of the most cost-effective ways of realizing this goal. Yet some studies downplay the importance of shoes in promoting a healthy lifestyle, and in particular deny the claim that they prevent getting the parasitical worms that Mycoskie references in TOMS’ mission statement. While another benefit to owning footwear in many of the targeted communities is an increased access to schooling, there is no research devoted to discovering the number of children who are attending school thanks to a TOMS donation. This comes back to the issues with the shortcomings in TOMS reporting standards. Again, there is a lack of real, concrete information about the impact that TOMS is having in the communities it donates in, instead relying mostly on a variety of pictures. Eventually consumers will demand substantiation to the company’s claims before being willing to continually throw money at the company.

TOMS needs to provide statistics on how people’s lives may or may not be improving due to the company’s involvement in their communities – information on whether the number of children in school has increased, or if there have been improvements in foot diseases and other health indicators. This would allow customers to determine whether giving people shoes helps, and by how much. Perhaps there could also be alternative approaches that might be more effective in achieving these goals. If donating shoes is effective, then supporters want to make sure that as much money as possible is going toward that effort – toward the non-profit. With more money,
the non-profit would have more resources to create change. Yet, since financial information is not released, there is no way to know how much of the retail price is going toward that aim.

On the other hand, if donating shoes does not have a significant impact on improving lives, then it may be better to use the money towards donations to other organizations working on different types of development work. For example, perhaps investing in the infrastructure of the community would achieve more substantial results for the same resources spent. TOMS focuses on shoes because it makes for an effective marketing stance, but does it really make sense as a vehicle for poverty alleviation? Hand-outs traditionally have not provided much of a lasting effect on communities, since they do not succeed in elevating the underlying economic conditions. The fact that TOMS focuses solely on the One for One™ shoe giving model leads to the conclusion that the company may be more concerned with bolstering its profits, thanks to a well-conceived marketing strategy, than with truly helping distressed communities.

The singular focus of the CSR approach taken by TOMS has also caused them to ignore one of the more traditional avenues of corporate responsibility – ensuring that the supply chain is socially conscious. While TOMS does claim that their suppliers follow fair labor practices, there is no auditing provided to authenticate the claim. This stands as a weakness for TOMS, where they could further improve their image by widening the scope of their CSR efforts. With their current levels of popularity they may feel that expending additional resources towards this is not worth the cost, but it may turn out to be a worthwhile investment to maintain public support.
If TOMS is unable to quantify the impact it is having and unwilling to lift the veil of financial secrecy over its operations, consumers could opt for different alternatives. SoleRebels, mentioned earlier, is an example of one competing footwear company that has a more holistic approach to bettering communities through economic empowerment. Alternatively, consumers could also decide that they may be better off spending $30 for a more affordable shoe and then donating the additional $30 they would have spent on a pair of TOMS to a preferable charitable cause. This option may be especially intriguing if it is found that the total dedicated to non-profit expenditures amounts to only a few dollars of the total retail cost. There is little doubt that TOMS is making good on its claim to donate a pair of shoes for every one sold, but questions remain about the effectiveness of such a strategy. It has proven to be a highly successful marketing strategy, but to ensure a lasting following the company will need to provide more evidence that the deeds it accomplishes justify the consumer cost. It will be important for TOMS to address these concerns as the scrutiny towards CSR methodologies expands along with growing consumer expectations.

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4 http://en.wikipedia.org/wiki/Espadrille


7 Mycoskie, Start Something that Matters.

8 Mycoskie, Start Something that Matters.

TOMS website www.toms.com

ii TOMS website www.toms.com


TOMS website. www.toms.com

TOMS Giving Report 2011


Sole Rebels website http://www.solerebelsfootwear.co/

