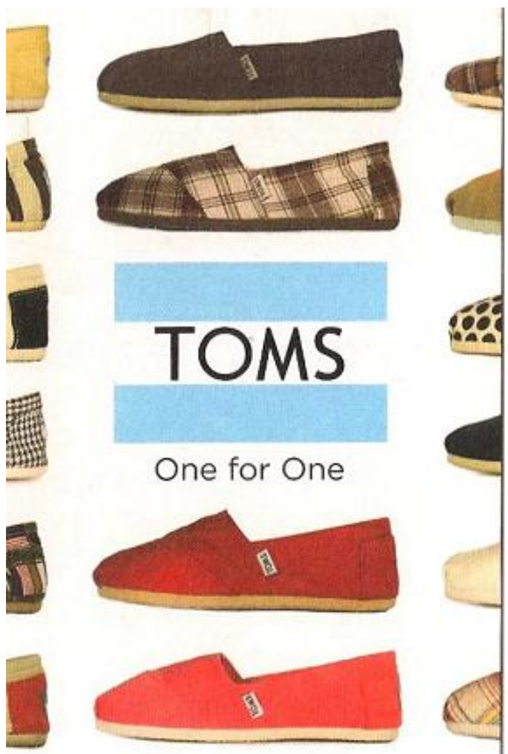
If the Shoe Doesn't Fit:

Growth Challenges at TOMS



Sara Jarvis

MBA 617

March 13, 2014

The compelling and marketable story of TOMS:

In 2006, Blake Mycoskie took trip to Argentina; learning the tango, playing polo, and enjoying the local wine. Always thinking like an entrepreneur, he wondered if the popular national shoe, the *alpargata* (see figure 1), would sell in the United States. A chance meeting with an American volunteer in Argentina on a shoe drive led to the idea of TOMS Shoes. The volunteer lamented to Mycoskie that the donated shoes were often the wrong size and the supply of donations was inconsistent. Mycoskie conceived the idea of a for-profit business that donated a pair of shoes for every pair sold, ensuring a steady stream of right-size donations. TOMS (short for Shoes for Tomorrow) was created and the revolutionary "One-for-one" business model was born.

At the beginning, TOMS was small – very small. Along with his polo instructor, Alejo Nitti, Mycoskie got the first 250 pairs of TOMS *alpargatas* produced while still in Argentina. Mycoskie and Nitti are the only known shareholders of TOMS (see figure 2). Returning to his home in Venice, California, Mycoskie took on a few unpaid interns and ran TOMS from his apartment. After the first 10,000 pairs of TOMS shoes were sold in the US, Mycoskie went back to Argentina and gave away 10,000 pairs to children in need.

Organization Background:

TOMS is a unique and pioneering company; a for-profit business with a social mission. With corporate offices located in Santa Monica, California, TOMS's target market is young, educated, socially conscious, and trendy. Serendipitously, TOMS's founding coincided with a rapidly growing consumer trend towards environmentally and socially conscious products.

The shoe industry is well-established and highly competitive. Shoe industry veterans scoffed at the TOMS business model, arguing that it was "unsustainable or at least untested – that combining a for-profit company with a social mission would complicate and undermine both" (Mycoskie, 2011, p. 19). However, TOMS has proved naysayers wrong and is successful because of that combination – in addition to current social consciousness market trends.

If TOMS just sold shoes, it would have stiff competition from an oversaturated shoe market, but because of its philanthropic mission, TOMS has differentiated itself. In his book *Start Something that Matters*, Mycoskie (2011) states, "The giving component of TOMS makes our shoes more than a product. They're part of a story, a mission, and a movement" (p. 19). That is something other shoemakers cannot offer, allowing TOMS to work free of competition. However, TOMS's meteoric success meant that competition would soon follow. The shoe company Sketchers created BOBS, its own combination shoe purchase and giving program. Though more inexpensive than TOMS – average retail cost for TOMS is $55 (Tom Sets Out, n.d.) - BOBS does not have a compelling story and has failed to gain even a small market share.

Despite its growth, TOMS's structure has remained very simple. TOMS is a private company and no org chart is available, but it is known that Mycoskie is the CEO and in sole control of the organization. The shoe industry is long-established and very stable; therefore not many external factors have influenced TOMS's structure. TOMS has grown organically, adding employees and departments as needed. Though difficult to confirm, TOMS appears to have very few vertical levels of hierarchy; Mycoskie is at the top, followed by a handful of executives, the various department heads, and finally the lower employees.

Shoe industry glamour, trendy social consciousness, and a young, charismatic leader draw talented, creative, innovative, and highly motivated employees to TOMS. Employees feel as if they are doing more than just making and selling shoes, they are part of a larger social movement – TOMS has high social capital. TOMS and its employees are viewed as progressive, genuine, fun, and productive.

TOMS has grown remarkably since 2006 and shows no signs of slowing. In fact, it is picking up momentum. Recently, TOMS introduced a One-for-one eyewear program. For every pair of sunglasses purchased, a child in a developing country receives eye care. Choosing to focus on giving numbers rather than sales, the website claims that “as of June 2013, TOMS has given more than 10 million pairs of new shoes to children in need” and “150,000 have had their sight restored through purchases of TOMS eyewear since 2011” (TOMS, n.d.). The One-for-one philosophy makes it easy to estimate sales numbers.

TOMS found a very profitable, previously untapped niche market and its future market potential is astounding. Growth has been managed up to this point, but it can be dangerous for an ill-prepared company. Edward D. Hess (2011) claims, “Growth challenges people and processes and necessitates changes…[I]f not properly managed, growth can pose significant risks to a business’s viability and survivability” (p. 2). TOMS has unlimited growth potential, but in order to continue on its philanthropic mission via entrepreneurship, it needs to make organizational changes to accommodate current and prepare for future growth.

Critical Analysis:

TOMS has evolved since Mycoskie returned from Argentina with 250 pairs of *alpargatas* in a duffle bag. Its growth has been less about luck than about great timing. By taking advantage of its own trendiness, TOMS has marketed itself very intelligently. "[T]he combination of a slightly exotic yet still approachable shoe and a do-gooder story proved alchemical, establishing the brand's popularity with tastemakers in fashion, lifestyle, and entertainment" (Tom Sets Out, n.d.). Eager to align themselves with such a hot product, celebrity endorsers have cost TOMS virtually nothing. Major corporations want to associate themselves with TOMS's feel-good story and have "integrated the brand into major ad campaigns and saved TOMS the expense of advertising" (Tom Sets Out, n.d.). TOMS's own advertising efforts have been through word of mouth. All of this "accidental" advertising has led to overwhelming consumer demand and major retailers want to sell TOMS.

TOMS is a privately held company, and its financial data unavailable. However, a late 2013 Fast Company (n.d.) magazine article states that "[TOMS] expects to sell at least 7 million pairs of shoes this year" and "gives a conservative revenue estimate of nearly $250 million in 2013, but an inside source suggests that the figure will surpass $300 million (including sunglasses)," (Tom Sets Out). TOMS's expanded its footwear line to include sandals, wedges, boots, and flats and added the new eyewear line.

Until it introduced eyewear, TOMS only sold footwear; any expansion was one of depth, not breadth. The rapidity of TOMS's growth with just footwear promises much more with diversification; "a search of the 200-plus domain names that Mycoskie LLC, TOMS's parent company, has registered over the past few years suggests that he is considering everything from wine…to event ticketing…to financial services" (Tom Sets Out, n.d.). In addition to growing and diversifying its product lines, TOMS is also expanding its global manufacturing: "by the end of 2015, TOMS will produce one-third of all the shoes it donates in the countries that are the focus of the giveaway programs" (Bhasin, 2013). Global manufacturing comes with its own challenges, especially manufacturing in a countries where necessary infrastructure is not reliable or is nonexistent. Considering its past and future growth, TOMS must plan, make changes, and adapt or its growth will be its downfall, no matter how high-minded its mission.

All companies seek growth - to not grow is often synonymous with decline. Due to this, growth strategy is a familiar term today. Growth strategy is commonly defined as a "strategy aimed at winning larger market share, even at the expense of short-term earnings. Four broad growth strategies are diversification, product development, market penetration, and market development" (Growth Strategy, n.d.). Common definitions lack a crucial component; they only consider external growth and don't include organizational or internal growth as part of the strategy. Managers who neglect organizational factors when planning for growth can undermine any actual growth and "organizational processes and structures that are well suited to today's challenges may well buckle under the strain of new demands or make it impossible to meet them" (Insights, n.d.). TOMS's external growth strategy is quite clear – global expansion in manufacturing, product development, and diversification. To make the most of external growth, TOMS needs to change to allow internal growth.

Recommendations:

The first recommendation is that TOMS reassess and change its organizational structure. Since its founding, TOMS has retained its simple, entrepreneurial structure which fit because the organization had low complexity and its external environment was likewise not complex. Nevertheless, its rampant growth has changed this. This new internal complexity demands a change in organizational structure if growth is to continue without sending TOMS into a downward spiral.

Organizational structure is very important not just for business function, but for growth. Organizational structure "represents a tool that can help managers make an organization more effective, depending on the demands of the situation" (Daft, 2010, p. 123). Though TOMS's organization chart is not published, diligent research has uncovered information from which a best guess org chart has been created (see appendix A). There are few layers of management, but TOMS's myriad functions make it wide horizontally. TOMS has a functional organizational structure that includes both business and giving aspects as well as the domestic and international.

For maximum efficiency and flexibility amongst its many functions and to accommodate its external growth plans, TOMS should forego a functional structure in favor of a dual-authority matrix structure. Currently, the organizational variables are business, giving, domestic, and international, with two product lines. However, TOMS plans to introduce many more product lines, further complicating the structure. The new suggested structure would result in relatively independent product lines with their own product managers. Each product line would draw on the expertise and experience of TOMS's staff dedicated to other functional areas such as design, marketing, sales, and giving.

TOMS would benefit from the dual-authority matrix structure in several ways. First, it would enable TOMS to deal with an increasingly unstable environment as the number of new entrants into the market for socially and environmentally conscious products increases. Second, it would help TOMS facilitate its dual goals of sales and giving for each product. Finally, the independence of the product lines would mitigate damage to the other product lines and TOMS as a whole if one of them should fail.

The second recommendation is that Mycoskie step down as CEO of TOMS in favor of a CEO experienced in managing global organizations. Daft (2010) claims that "a CEO's top priority is to make sure the organization is designed correctly" and that "top management provides direction, planning, strategy, goals, and policies for the entire organization" (p. 27). Until TOMS, Mycoskie's business experience was limited to entrepreneurial start-ups which he either closed or sold while they were still small. It is Mycoskie's entrepreneurial spirit mixed with his desire to do good created TOMS, but now that TOMS is operating on a global scale, it requires a much different set of skills.

Mycoskie is the face of TOMS, its chief storyteller, chief shoe giver, and a free spirit. After interviewing Mycoskie, one author noted, "The more TOMS grows, the less time Mycoskie seems to spend in the office. He delegates the day-to-day operation of the company to his management team. That frees him up to spend much of his time traveling -- spreading the [TOMS] gospel, delivering shoes to children in Africa and South America, and taking fairly lengthy vacations" (The Way I Work, n.d.). Nevertheless, a CEO needs to be present and strategizing for the company's future. A definition of a Chief Executive Officer's duties includes: "developing and implementing high-level strategies, making major corporate decisions," and "managing the overall operations and resources of a company" (Chief Executive Officer, n.d.). Mycoskie can be the primary shareholder and the face of the organization, but TOMS needs a leader experienced in facilitating growth and overcoming obstacles on a global scale.

The third recommendation is that TOMS invest heavily in infrastructure to deal with organizational growth. According to Daft (2010), organizational success depends upon "the information managers have and how they use it. Highly successful organizations are typically those that most effectively apply information technology" (p. 296). As TOMS grows there will be a corresponding growth in information that must be processed and shared, especially with global growth. Managers must make decisions based upon that information and any breakdown in information sharing can mean decisions are made with faulty or incomplete knowledge.

TOMS's global growth demands investment in infrastructure on every level. Upgrading infrastructure will improve horizontal coordination, improved interorganizational relationships, and enhanced network structures (Daft, 2010, p. 322-3). Transition to a dual-authority matrix structure requires having a sound technological infrastructure so employees across the globe and across product lines have access to information and can communicate easily with one another. Manufacturing infrastructure in developing countries must be invested in to ensure that quality goods are produced when and in the quantities needed.

Increased globalization and diversification means increased complexity. Supply chain management will become much more complex, requiring computer operating systems that help managers oversee and coordinate the entire process from acquisition of raw materials to delivery of final goods to consumers. If a company continues to grow depending on existing capabilities, "eventually a tipping point is reached…caused by the failure of the business to grow its infrastructure at the same rate as sales and advertising, caus[ing] the system to collapse" (4 Essential Steps, n.d.). TOMS is still at a stage when proper infrastructure reinforcement for optimum growth is possible.

Conclusion:

TOMS is a unique organization, blending a for-profit business with the social consciousness of a charity. There is no precedent for such an organization and no model for it to follow. Through perfect timing, TOMS managed to satisfy a consumer need created by the social and cultural trends of the young, educated, and socially conscious. This has led TOMS down a path of meteoric growth. Such growth comes with potential dangers, though.

In order to continue to successfully grow on a global scale, TOMS must make internal changes to help deal with the current growth and facilitate more. "Growth, if not well-planned and managed, can stress people, processes, and controls and often can outstrip the capabilities of people and companies" (Hess, 2011, p. 12). To keep growing, TOMS must make some internal changes. It must change from an entrepreneurial, functional structure to a dual-authority matrix structure; Mycoskie should step down as CEO in favor of a leader more experienced in global operations; and TOMS should invest heavily in its infrastructure. External growth is all well and good, but if an organization is to succeed, it needs to devote an equal amount of thought, energy, and resources to making sure its internal structure is able to grow at the same pace.

References

4 Essential Steps to Managing Growth by Matthew Swyers. (n.d.). Inc.com. Retrieved March 1, 2014, from http://www.inc.com/matthew-swyers/4-essential-steps-to-managing-growth.html

Bhasin, K. (2013, June 24). TOMS Founder Blake Mycoskie Promises Big Investment, Not Just Free Shoes. The Huffington Post. Retrieved March 1, 2014, from http://www.huffingtonpost.com/2013/06/24/toms-shoes-promise_n_3492426.html

Chief Executive Officer – CEO. (n.d.). *Investopedia*. Retrieved March 1, 2014, from http://www.investopedia.com/terms/c/ceo.asp

Daft, R. L. (2010). *Organization theory and design 10th ed*. Cincinnatti, Ohio: South-Western College Publishing.

Growth strategy. (n.d.). BusinessDictionary.com. Retrieved March 1, 2014, from http://www.businessdictionary.com/definition/growth-strategy.html

Hess, E. (2011). *Growing an entrepreneurial business concepts and cases*. Stanford, Calif.: Stanford Business Books.

Insights & Publications. (n.d.). Preparing your organization for growth. Retrieved March 1, 2014, from http://www.mckinsey.com/insights/organization/preparing_your_organization_for_growth

Mycoskie, B. (2011). *Start something that matters*. New York: Spiegel & Grau.

The Way I Work: Blake Mycoskie of Toms Shoes As Told to Tamara Schwietzer. (n.d.).

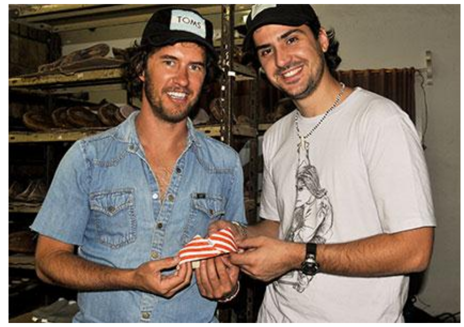
Inc.com. Retreived March 1, 2014, from http://www.inc.com/magazine/20100601/the-way-i-work-blake-mycoskie-of-toms-shoes.html

TOMS One for One Shoes and Eyewear. (n.d.). *Toms.com*. Retrieved March 1, 2014, from http://toms.com/

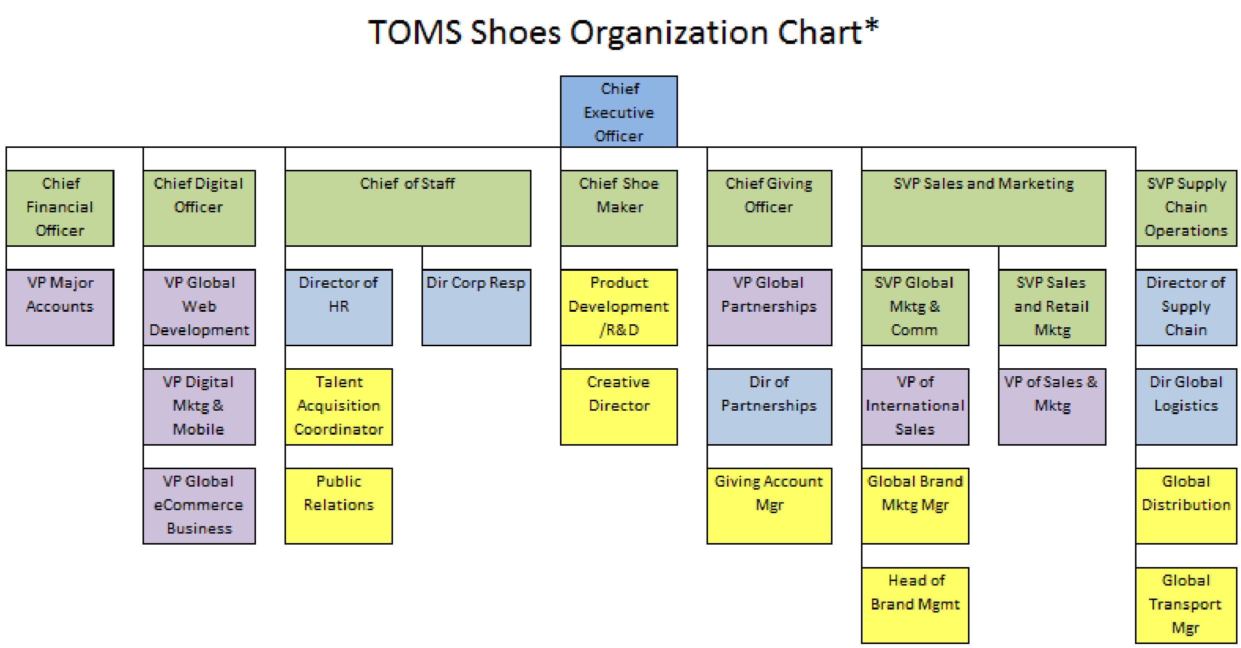
Toms Sets Out To Sell A Lifestyle, Not Just Shoes | Fast Company | Business + Innovation. (n.d.). Fast Company. Retrieved March 1, 2014, from http://www.fastcompany.com/3012568/blake-mycoskie-toms

Figure 1: TOMS *alpargata* shoe

Figure 2: Blake Mycoskie and Alejo Nitti



Appendix A



*No organization chart for TOMS is available. This chart is an educated guess based upon research performed on individual TOMS employees using various websites including LinkedIn.