

# Allbirds Research Report

## Key Insights Summary

The due diligence report on Allbirds highlights the company's pioneering role in sustainable fashion, driven by its innovative use of eco-friendly materials. Founded in 2016, Allbirds has built a strong brand identity around environmental responsibility, appealing to eco-conscious consumers. However, the company faces challenges balancing sustainability with product durability, as customer feedback indicates dissatisfaction with longevity. Despite a competitive edge in sustainability, Allbirds contends with significant market pressure from giants like Nike. Financially, the company is navigating revenue declines and supply chain vulnerabilities but is bolstered by a strategic transformation plan and strong cash reserves. Looking forward, Allbirds aims to expand its market presence and enhance product offerings, supported by recent leadership changes and a commitment to innovation.

## Business Profile

Allbirds, founded in 2016 by Tim Brown and Joey Zwillinger, is a sustainable footwear and apparel company committed to environmental responsibility. The company's core mission is to create eco-friendly products using natural materials, minimizing their carbon footprint. Allbirds offers a range of shoes, clothing, and accessories, with its flagship product being the Wool Runner, made from merino wool. The company is distinguished by its use of innovative materials such as eucalyptus tree fiber and sugarcane-based EVA foam, setting it apart in the industry for its dedication to sustainability. Allbirds' commitment to transparency and environmental impact reduction has garnered a loyal customer base and positioned it as a leader in the sustainable fashion movement.

## Products/Services Review

### Sustainability vs. Durability Challenge

- Allbirds has prioritized sustainability, using eco-friendly materials like merino wool and eucalyptus fibers. However, this focus has led to durability issues, with products often becoming unusable within a year.
- Customer feedback highlights dissatisfaction with product longevity, indicating a need for Allbirds to balance sustainability with durability to maintain customer loyalty.

### Comfort and Design as Key Differentiators

- Allbirds initially gained popularity for its comfortable and stylish footwear, particularly among tech-savvy consumers. The Tree Dashers, for example, are praised for their comfort and eco-friendly materials.
- Despite sustainability being a core mission, the brand's success was largely driven by comfort and design, suggesting a potential misalignment in product strategy.

### Innovative Product Offerings

- Allbirds continues to innovate with materials like SweetFoam, derived from sugarcane, to reduce carbon footprints. This innovation supports their sustainability goals while enhancing product appeal.
- The company has also introduced the Rerun program, offering gently used products at a discount, aligning with their sustainability mission and appealing to eco-conscious consumers.

Sources:

[Link1](#)

[Link2](#)

[Link3](#)

## Market and Competitive Landscape

### Sustainability as a Competitive Edge

- Allbirds has carved a niche in the footwear industry by emphasizing sustainability, using natural materials like merino wool and eucalyptus fiber. This approach resonates with eco-conscious consumers, setting Allbirds apart from traditional footwear brands.
- The company's commitment to eco-friendly practices, such as using renewable sugarcane-based foam, enhances its market position and appeals to a growing segment of environmentally aware customers.

### Challenges from Established Competitors

- Despite its unique positioning, Allbirds faces significant competition from major players like Nike and Adidas, who are also advancing their sustainability initiatives. Nike holds a dominant market share of over 50%, highlighting the competitive pressure on Allbirds.
- To maintain its market presence, Allbirds must continue to innovate and differentiate its offerings, leveraging its strengths in sustainability and comfort.

### Opportunities for Market Expansion

- Allbirds can capitalize on its strong brand identity and consumer trust to explore new geographic markets and expand its product range beyond footwear. This strategy could help increase its market share and attract a broader customer base.

Sources: [Link1](#), [Link2](#), [Link3](#)

## **Risk and Challenges**

### Supply Chain Vulnerabilities

- Allbirds relies heavily on international suppliers, with 90% of materials sourced globally, exposing it to geopolitical risks and supply chain disruptions. Recent geopolitical tensions, such as the U.S.-China trade dispute, have led to increased tariffs, impacting costs and pricing strategies.
- The limited number of suppliers for specific sustainable materials, like merino wool, restricts Allbirds' negotiating power and heightens the risk of supply disruptions.

### Financial Pressures

- Allbirds faces significant financial challenges, with net losses accumulating to 458.8 million as of September 2024. High operational costs associated with sustainable practices contribute to these losses, as seen in the 135.4 million operating expenses reported for the first nine months of 2024.
- Economic uncertainties, including inflation and rising interest rates, have decreased consumer spending on discretionary items, affecting Allbirds' sales and profitability.

### Competitive Market Dynamics

- The sustainable footwear market is highly competitive, with brands like Rothy's and Veja offering similar products. A 2024 market analysis revealed that 58% of consumers might switch brands based on price or availability, emphasizing the need for Allbirds to maintain competitive pricing and product differentiation.

Sources:

[Link1](#)

[Link2](#)

[Link3](#)

[Link4](#)

[Link5](#)

## Financial information and valuation

### Revenue Decline and Challenges

- Allbirds experienced a significant decline in net revenue across the first three quarters of 2024, with Q1 revenue decreasing by 27.6% to *39.3millionandQ3revenuedroppingby*24.943.0 million compared to the previous year.
- The revenue decline is attributed to lower demand, international distributor transitions, and retail store closures, indicating challenges in maintaining market share and consumer interest.

### Cost Management and Profitability

- Despite revenue challenges, Allbirds improved its gross margin by 680 basis points to 46.9% in Q1 2024, primarily due to reduced freight and product costs.
- The company also reduced its selling, general, and administrative expenses, which decreased from 78.7% to 101.0% of net revenue, reflecting efforts to streamline operations and improve cost efficiency.

### Strategic Transformation and Financial Outlook

- Allbirds is undergoing a strategic transformation plan, which has shown progress in operational and financial metrics, as evidenced by a reduction in net loss from
- *35.2millioninQ12023to*
- *35.2millioninQ12023to*27.3 million in Q1 2024.
- The company maintains a strong cash position with \$102.1 million in cash and no outstanding borrowings, providing a buffer to support its strategic initiatives and long-term growth objectives.

Sources: [Link1](#), [Link2](#), [Link3](#), [Link4](#), [Link5](#)

## News Trend

### Allbirds Recognized for Innovation

- Allbirds has been ranked second in the 2024 BrandKeys' Most Innovative Brands list, highlighting its strong consumer perception in innovation.
- This recognition places Allbirds ahead of major brands like Nike and Peloton, which did not make the list, indicating a competitive edge in consumer expectations.

- The survey, involving 7,806 consumers, underscores Allbirds' success in meeting innovation expectations, crucial for maintaining market relevance.

#### Sustainability Initiatives Gain Attention

- Allbirds' commitment to sustainability is evident in its ongoing project, "M0.0NSHOT," aiming to create a shoe with no carbon footprint by 2030.
- The company has made significant progress, already halfway to its goal of reducing its per-product carbon footprint by 2025.
- This initiative not only enhances brand image but also aligns with growing consumer demand for environmentally responsible products.

#### Leadership Changes to Drive Growth

- Allbirds has appointed a new Chief Marketing Officer and Chief Design Officer to revitalize its brand and product offerings.
- These strategic hires are part of a broader transformation plan to counteract recent sales declines and reignite consumer interest.
- The leadership changes are expected to leverage deep industry expertise to foster innovation and drive brand demand.

Sources: [Link1](#), [Link2](#), [Link3](#)