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9B21A005

TRANSPARENCY AND ETHICS AT EVERLANE[[1]](#endnote-1)

Karen Robson and Matthew Wilson wrote this case 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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Everlane Inc. (Everlane) was a clothing retailer selling modern, everyday basics, such as white T-shirts, jeans, and backpacks. To set itself apart from other apparel retailers, the company engaged in what it referred to as “radical transparency,” operating with the principles of sustainability and ethics embedded into the business. This approach involved disclosing its costs and pricing, being highly selective of the factories it partnered with, providing detailed information about these factories, and taking steps toward reducing its use of virgin plastic across its supply chain.[[2]](#endnote-2) Shortly after the COVID-19 pandemic was declared in 2020, the company faced backlash after laying off a large number of its employees, many of whom had been organizing to unionize. In addition, allegations of a toxic work environment emerged, and some questioned whether the company was actually upholding the ethics it claimed to value or was merely presenting an ethical image.[[3]](#endnote-3) Moving forward, how could the company regain trust and repair its image?

EVERLANE

Michael Preysman and Jesse Farmer co-founded Everlane in 2010 in San Francisco. The company began as a direct-to-consumer retailer of sustainably produced men’s clothing, and it touted an ethical supply chain and radical transparency. Under Preysman’s leadership as chief executive officer (CEO), the business grew: the company hit $100 million[[4]](#endnote-4) in revenue in 2016 and saw its revenue double each year between 2015 and 2018.[[5]](#endnote-5) In 2018, Everlane was listed at number 40 on *Fast Company*’s list of the world’s most innovative companies.[[6]](#endnote-6) By 2020, the company had grown to become a retailer of both men’s and women’s casual apparel and accessories, including jeans, T-shirts, sweaters, shoes, and activewear. These products were sold online as well as in a small number of retail outlets located in major US cities.[[7]](#endnote-7)

Products

Everlane clothing could be described as basic; the company typically stuck to neutral colours and minimalist designs that were well suited to casual offices or weekend occasions. Its women’s clothing came in sizes XXS to XL, while its men’s clothes came in sizes XS to XXL. In stark contrast to major fast-fashion retailers such as H&M Hennes & Mauritz Inc. and Zara SA, Everlane did not try to create clothing that was tailored to trends. Instead, Everlane attempted to create and sell clothing that would stand the test of time. Preysman stated, “We make products that are timeless in look. . . .The clothing has a current point of view, but can also be worn in ten years. . . . In our view, the best way to be environmentally sustainable is to create really great quality clothing that lasts and that has a lasting time stamp.”[[8]](#endnote-8)

To that end, the brand offered Uniform, a line of everyday staples such as jeans, T-shirts, button-down shirts, sweatshirts, and hoodies. All products within the Uniform line came with a year-long guarantee: for 365 days after purchase, if a customer was not satisfied with their purchase, or if there were any issues with the item, Everlane would replace it.[[9]](#endnote-9) Prior to initiating this guarantee, the company did extensive testing; Preysman said, “We did all the testing. Fifty washes. We did stretch testing, color fastness, because things should last.”[[10]](#endnote-10) For most items not in the Uniform line, Everlane applied its standard return policy, which allowed consumers to return unworn, unwashed items up to 90 days after purchase.[[11]](#endnote-11)

In 2018, Everlane announced its commitment to completely removing the use of virgin plastics from its supply chain by 2021.[[12]](#endnote-12) Instead, it intended to use plastic water bottles and “renewed” or recycled materials. In doing so, the company planned to replace all synthetic fabrics with renewed materials, replace all virgin plastic bags with renewed versions, and eliminate all single-use plastics from its offices and stores. Preysman estimated that, over the next five years, the company would process about 100 million water bottles through its system.[[13]](#endnote-13)

As a first step toward the goal of being virgin plastic–free by 2021, the retailer launched a collection of clothing called ReNew, which was composed of clothing made from recycled plastics. The company website identified products in the ReNew collection and, for each of them, noted that the product was “made from recycled plastic bottles, diverting waste from landfills and lessening dependency on fossil fuels.” Products in the ReNew line included cold-weather outerwear such as puffer jackets, parkas, and sweatshirts made from millions of recycled plastic water bottles. For each garment, the website indicated how many plastic bottles were used; for example, the reversible hooded puffer coat used 16 recycled plastic bottles. The garments in the ReNew collection ranged in price from about $50 to nearly $200 per item.[[14]](#endnote-14)

Items in another collection, 100% Human, had the words “100% Human” written on them, and a portion of all sales from this collection were used to support the American Civil Liberties Union (ACLU). The ACLU worked to defend human rights in a number of ways, including through advocating for racial justice, fighting for LGBTQ+ rights, and safeguarding voting rights and free speech.[[15]](#endnote-15)

To minimize waste and avoid the problem of having excess inventory, Everlane intentionally under-produced apparel across all its product lines and collections.[[16]](#endnote-16) When demand for an item was much higher than expected, Everlane allowed customers to enter a waitlist while the garment was manufactured. This waitlist approach had proven successful for the company; in 2017, for example, it sold out of ballet slippers after three days, and 28,000 customers subsequently signed up for the waiting list for the shoes.[[17]](#endnote-17)

Distribution

Everlane products were manufactured in the company’s factories, then transported to warehouses in the United States and sold to consumers via the Everlane website or retail outlets. Although the company partnered with one factory in California and a handful of factories in Europe, the majority of its factories were located in Asia.[[18]](#endnote-18)

Before partnering with a factory, Everlane conducted an audit in which it evaluated the working conditions of the facility; this audit included an evaluation of the wages, the hours worked, and the overall environment. In addition, all Everlane factories made sustainability a priority. The factory that manufactured Everlane jeans, for example, recycled 98 per cent of its water and turned the rest of the “sludge” into bricks that were used to build affordable housing.[[19]](#endnote-19) In total, Everlane partnered with 36 factories around the world, all of which were listed on its website along with information about the factories’ owners and locations, the number of employees, and the products that were made in each particular factory. The website also included multiple photographs of each factory, allowing people to see inside every location.[[20]](#endnote-20)

Everlane had a Black Friday Fund initiative, which used profits generated on the Friday before US Thanksgiving to support critical but unfilled needs of its suppliers. For example, Everlane discovered that the majority of employees in its factory in Ho Chi Minh City, Vietnam, drove mopeds to work—but that they did so without helmets, which were not widely available. In response, Everlane tapped into its Black Friday Fund to provide helmets to all 8,000 employees at that factory.[[21]](#endnote-21) Another Black Friday Fund initiative led to the development of a sustainable, pesticide-free method of providing free meals to all 4,000 employees at Everlane’s factory in Bien Hoa, Vietnam.[[22]](#endnote-22)

The company began as an online-only retailer—with Preysman saying in 2012 that he would rather “shut the company down” than open a physical store.[[23]](#endnote-23) Early on, the company offered a delivery service called EverlaneNow, which allowed customers in New York City and San Francisco to order select items and receive them within one hour.[[24]](#endnote-24) By 2017, the idea of retail outlets had become much more attractive; Preysman noted, “Our customers tell us all the time that they want to touch a product before they buy it. . . . We realized we need to have stores if we’re going to grow on a national and global scale.”[[25]](#endnote-25) The company opened its first brick-and-mortar outlet in 2017. By 2020, the retailer had seven store locations in New York, California, Texas, and Massachusetts. Storefronts were deliberately free of mannequins so that people walking by could see customers and staff inside the stores. Preysman said, “The people are the important component of the store, not product.”[[26]](#endnote-26)

Price

The Everlane website explained the company philosophy about pricing by stating that “We believe our customers have the right to know what their products cost to make.”[[27]](#endnote-27) To that end, the company broke down its costs for each of the garments available for sale into five categories: material costs, hardware costs, labour costs, duties, and transport costs. The sum of these costs represented the true cost of the garment. Everlane then set a price that was typically a markup of two or three times the true cost; it also indicated its estimate of a traditional retail markup, which it estimated to be five or six times the true cost of a garment. For example, a garment whose true cost was $54 might retail at Everlane for $168, but would be priced at about $270 by a traditional retailer. When speaking about the company’s transparent pricing approach, Preysman said, “People know that we have to make money at the end of the day and they feel good about supporting someone that is not ripping them off because they trust us.”[[28]](#endnote-28)

Promotion

When Everlane first opened, it had a “no discounts” approach. However, by 2015, the company had begun to offer sales promotions with a unique twist: customers were asked to pay what they thought was fair.[[29]](#endnote-29) This “Choose What You Pay” approach involved asking customers to pick from among three different price options for overstocked items. Each price point came with an explanation of how much profit Everlane would generate. The explanation of the lowest price option, which was equal to the company’s stated total costs, said, “$0 to Everlane. This only covers our cost of production and shipping.” The middle option showed how much profit the company gained at that price point and stated, “This helps cover production, shipping, and overhead for our 70-person team.” The highest price also showed how much profit the company gained, but stated, “This helps cover production, shipping, our team, and allows us to invest in growth. Thanks!” Twelve per cent of customers chose the highest price option.[[30]](#endnote-30)

To connect with customers, Everlane had a social media presence on various platforms, including Facebook, Twitter, Instagram, and Snapchat. However, the company was most active on Instagram and Twitter; as of September 2020, its Instagram account had just shy of one million followers, and its Twitter account had nearly 36,000 followers. The company used these accounts to showcase photos of garments, retail stores, factories, or influencers, and to share information. Preysman said of the company’s social media presence that “Social [media] is important to us because it’s naturally transparent, and we push that part of our brand.” However, unlike the ways many businesses used social media, Everlane typically did not use these platforms to sell its products directly: most of its social media posts did not include links to purchase the clothing that was showcased. Rather, the company’s key goal on social media was customer engagement. Preysman said, “This works for engagement. It’s hard to prove dollars for social. So we know our objective.”[[31]](#endnote-31)

EVERLANE’S IMAGE PROBLEM

In early 2020, the COVID-19 pandemic led to stay-at-home orders for citizens, a drastically suppressed economy, and indefinite closures for a number of retail outlets. Like all retailers, Everlane was forced to adapt to the situation, and in March of 2020, Everlane laid off over 200 employees. Preysman said, “This is the most difficult decision I have ever made as a leader. . . . Each of these individuals has contributed meaningfully to Everlane and we are doing everything we can to support them with the resources we have available.” The company also noted that each employee who was laid off would receive two weeks of severance pay and that the company hoped to build its employee numbers back up once the economy improved.[[32]](#endnote-32)

The layoffs included 42 of the 57 members of Everlane’s customer experience team—a group that had announced the previous November that its members intended to unionize. Despite stating this intention, when the layoffs occurred in March 2020, the group had not yet gained signatures in support of the unionization effort from the majority of the customer experience team—a requirement for the group to unionize.[[33]](#endnote-33) In addition, Everlane stated that its layoffs were in response to the pandemic—not the unionization efforts—and that it did not know which of the laid-off employees were part of the unionization effort. In April 2020, Preysman released a statement outlining the official reasons for the layoffs (see Exhibit 1).

A few months later, Everlane was still facing criticism and backlash—particularly from a number of former employees who accused the company of being anti-Black and anti-union, and of having a toxic internal culture. In response, the organization undertook an internal investigation, which ultimately confirmed many of the accusations. The investigation revealed that, among other issues, Black models and people of colour were described by using insensitive or inappropriate terms, that employees sometimes felt that their personal space was violated, and that new hires felt unwelcome. These issues were likely exacerbated by the lack of formal processes employees could use to communicate or escalate their concerns related to harassment or discrimination. Preysman told his staff that he had faced the “hardest three months of my life” with the start of the pandemic, and that accusations of an unethical and harmful work environment and employee layoffs had brought him to tears.[[34]](#endnote-34)

Next Steps

Moving forward, the company needed to address several key issues. One issue was financial: the impact of the pandemic and bad public relations was significant, and Everlane was on track to lose $15 million in profits in 2020. Another critical issue was the company’s organizational culture. Preysman stated that Everlane had “urgent work to do to rewrite Everlane’s code of ethics.” The company committed to a number of steps to rectify the situation: it would open a seat on the board for a Black member and add a Black person to the company’s senior leadership; the entire company would undergo anti-racism training; and it would team up with two racism accountability organizations.[[35]](#endnote-35) Despite these promises, the question remained: Was Everlane telling customers one thing about its ethical values but practising something entirely different? How should Everlane move forward in a way that adhered to its values, met the needs of its customers, and was profitable?

EXHIBIT 1: PREYSMAN’S STATEMENT

To our community—

Over the past three weeks, many of our lives have been turned completely upside down. The COVID-19 pandemic is unlike anything we could have predicted, and it has left no person or business untouched. Everlane is no exception.

So when everything goes wrong, how do we do right? It’s been hard, to say the least.

I wanted to take this opportunity to be transparent about how we’ve been operating in three areas: our business, our team, and recent unionization efforts at Everlane.

With our stores closed indefinitely and our margins eroded—we can no longer operate in the way we had planned. We have taken actions to reduce expenses across every aspect of the business. We cut salaries from our senior leadership team by 25%, and my salary has been reduced to zero during this time. Additionally, we are working directly with each of our supply chain partners to determine how we can move through this period and share the negative impact of the downturn.

COVID-19 has spared no part of our business. After considering all of our options, last week we had to let go of many of our talented team members across our part-time and retail teams. It is not something I ever imagined happening at Everlane. All those impacted received severance, and with the new government stimulus package, they will receive 100% of their pay for four months. I truly wish we didn’t have to take this action, and I hope we never have to again.

Since then, some have said that Everlane used the COVID-19 pandemic as a way to end internal union-organizing efforts on our customer experience team. We would never do that. Firing as a form of union busting is unethical and illegal. Everlane has and always will support workers’ rights to choose to unionize via the democratic election process outlined by the National Labor Relations Board (NLRB). For more details on this specific situation, you can visit [everlane.com/covid19](https://support.everlane.com/hc/en-us/articles/360045022633).

While we let go of 42 part-time customer experience team members—14% of the total layoff—we were able to convert 16 to full-time positions with health benefits. This has been an incredibly challenging time, and I sincerely apologize to anyone who felt wronged in this process.

There are tens of thousands of individuals worldwide whose livelihoods depend on Everlane. During this difficult period, we will continue to support them as best we can and operate in line with our values.

We’re not always perfect, but we will always strive to do right by our people, our partners, and our community.

Thank you,

Michael

Source: Everlane Inc., “An Update from Our Founder,” Everlane, April 1, 2020, accessed September 16, 2020, www.everlane.com/covid19-update.

ENDNOTES

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4. All currency amounts are in US$ unless otherwise indicated. [↑](#endnote-ref-4)
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6. “The World’s 50 Most Innovative Companies 2018, *Fast Company*, accessed September 16, 2020, www.fastcompany.com/most-innovative-companies/2018. [↑](#endnote-ref-6)
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11. Everlane Inc., “What Is the Uniform 365 Guarantee and How Does It Work?,” op. cit. [↑](#endnote-ref-11)
12. Everlane Inc., “ReNew,” Everlane, accessed September 16, 2020, www.everlane.com/renew. [↑](#endnote-ref-12)
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14. Everlane Inc., “ReNew,” op. cit. [↑](#endnote-ref-14)
15. American Civil Liberties Union official website, accessed September 16, 2020, www.aclu.org/. [↑](#endnote-ref-15)
16. Joshua Gerlick, “Transparency in Apparel: Everlane as a Barometer for Global Positive Impact,” *International Journal of Ethical Leadership* 6, no. 1 (2020): 87–95. [↑](#endnote-ref-16)
17. Segran, op. cit. [↑](#endnote-ref-17)
18. Everlane Inc., “Our Factories,” Everlane, accessed November 9, 2020, www.everlane.com/factories. [↑](#endnote-ref-18)
19. Segran, op. cit. [↑](#endnote-ref-19)
20. Everlane Inc., “Our Factories,” op. cit. [↑](#endnote-ref-20)
21. Gerlick, op. cit. [↑](#endnote-ref-21)
22. Andrew Amelinckx, “Everlane Is Using Black Friday Sales to Bring Farm-Fresh Food to Garment Workers,” Modern Farmer, November 22, 2019, accessed September 16, 2020, https://modernfarmer.com/2017/11/everlane-using-black-friday-sales-bring-farm-fresh-food-garment-workers. [↑](#endnote-ref-22)
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24. Schlossberg, op cit. [↑](#endnote-ref-24)
25. Bhattarai, op. cit. [↑](#endnote-ref-25)
26. Segran, op. cit. [↑](#endnote-ref-26)
27. Everlane Inc., “We Believe We Can All Make A Difference,” op. cit. [↑](#endnote-ref-27)
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29. Lizzie Widdicombe, “How Everlane Hacked Your Wardrobe,” *New Yorker*, September 25, 2017, accessed September 16, 2020 from, www.newyorker.com/culture/on-and-off-the-avenue/how-everlane-hacked-your-wardrobe. [↑](#endnote-ref-29)
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