TOMS SHOES

CASE STUDY

A comprehensive analysis of TOMS Shoes' journey, challenges, and strategic solutions.

CIAG

Nick Zarrillo, Olivia Doyoyo, Charles Zhang, Kyla Phiri, and James Tucker

Executive Summary

This case study explores TOMS Shoes, a brand navigating market expansion and innovation challenges in the competitive shoe-wear industry.

01. **Key Findings:**

- TOMS Shoes suffered from an unsustainable business model that, after the fad ran out, lost steam and was no longer profitable
- This loss in profitability led to their debts taking over and them losing control of the company
- While TOMS has moved on from the “One for One” model, it still suffers from market fit problems

02. **Proposed Solution:**

- TOMS can better fit the current market by pushing new shoes that fit with current market demand
- TOMS can also change its pricing strategies to make the brand luxury, therefore increasing net profits and helping better sustain its profit-donation business model
- TOMS may also need to look into a variety of debt reduction strategies

Background

Company Overview

- TOMS Shoes was founded in 2006 by Blake Mycoskie
- Mycoskie created TOMS with a “One for One” business model, where for every pair of shoes sold, the company would donate a new pair to a child in need.
- TOMS became a leader in social entrepreneurship, attracting a consumer base that valued ethical and mission-driven consumption.

Historical Growth

- TOMS experienced rapid growth in the late 2000s and early 2010s
- Grew mostly through word-of-mouth marketing, celebrity endorsements, and partnerships with retailers like Nordstrom

Debt and Capital Structure Changes

- In 2014, TOMS Shoes was valued at $625 million, which led to Bain Capital acquiring 50% of the company
- In late 2019, reports broke that announced TOMS would not be able to pay its debts, of around $300 million, and creditors would be taking over the company.
- The debt issues caused TOMS to move away from the “One for One” model and toward a broader impact strategy centered on community-based grants to solve issues.

Market Analysis - Labor Market

Outsourcing labor

- TOMS, like many apparel brands, relies on offshore manufacturing to keep production costs low while maintaining the margin needed to sustain its "One for One" model.
- This is mainly from Vietnam and China

Market Changes

- Recently, labor costs have been rising in traditional manufacturing hubs like China due to wage inflation, stricter labor laws, and an aging workforce
- TOMS was negatively affected by rising wages, especially as the company was giving away 50% of its product for free

Compliance Scrutiny

- TOMS Shoes has faced scrutiny over its labor practices and concerns about the potential for labor exploitation in its supply chain
- This forced it to invest in audits, compliance, and more sustainable supply chain practices
- They are now affiliated members of the Fair Labor Association (FLA), which guides them in adhering to labor laws.

Market Analysis - Retail Market

In 2023, the global footwear market was valued at nearly $400 billion. The market has seen a significant shift towards e-commerce and direct-to-consumer (DTC) sales, accounting roughly 30% of global footwear sales.

TOMS manufactures its products in China and other low-cost regions to maintain competitive pricing, but ongoing supply chain disruptions and international trade tensions have strained the company's margins.

As a low-cost brand, TOMS cannot easily pass these rising costs on to consumers through increasing their prices. Therefore, maintaining control over production and other internal costs is essential to sustaining its business model.

Porter's Five Forces Analysis

Threat of Entrants - Moderate to High

- Low barriers to entry in e-commerce and direct-to-consumer footwear.
- New brands can leverage social media, dropshipping, and contract manufacturing to enter the market with minimal upfront investment.
- However, brand trust, impact credibility, and supply chain complexity create moderate barriers.

Competitive Rivalry - High

- Intense competition in the footwear market from brands like Nike, Adidas, Vans, and Allbirds
- Many other socially conscious brands such as Warby Parker, Bombas, and Allbirds now compete on both impact and style.
- All companies now incorporate corporate social responsibility (CSR), diluting TOMS's original competitive edge.

Threat of Substitutes - High

- Other footwear styles like sneakers, sandals, and boots that TOMS doesn't make
- Other social impact products in other categories
- Consumers may donating directly rather than via product-linked models

Porter's Five Forces Analysis

Bargaining Power of Suppliers - Moderate

- TOMS outsources manufacturing to overseas suppliers, mainly in developing economies.
- It relies on third-party factories, which limits direct control over labor conditions, pricing, and raw materials.
- As it aims for more ethical and sustainable production, TOMS may have to work with more expensive suppliers, increasing costs.
- Consumers have a wide variety of footwear options, often at similar or lower price points.
- Socially conscious buyers are increasingly savvy and critical of simplistic giving models.
- Buyers demand transparency, impact, and competitive value.
- Low switching costs for consumers.

Implications for TOMS Shoes

- TOMS must differentiate beyond its "One for One" model through design innovation, brand storytelling, or deeper impact integration.
- TOMS's first-mover advantage in social impact is fading. It needs to deepen its moat through brand loyalty and community engagement.
- TOMS must continually evolve to meet changing buyer expectations—merely giving away shoes is no longer enough to command loyalty.
- TOMS faces the dual challenge of competing as a shoe company and as a social enterprise, with threats from both traditional and mission-based alternatives.

SWOT Analysis

Strengths

- Strong Brand Recognition -Built on early success and reputation as a pioneer in ethical retail.
- Low Production Costs - Offshore manufacturing helps keep prices competitive.
- Direct-to-Consumer Growth - Reduced reliance on brick-and-mortar stores and third-party retailers.

Weaknesses

- Collapse of One-for-One Model - Undermined a key part of TOMS' original brand identity.
- Inability to Raise Prices due to value-based branding. Limits pricing flexibility amid rising costs.
- Debt History - 2019 creditor takeover continues to cast doubt on financial stability.

Opportunities

- Constantly Evolving Fashion Trends Frequent product launches can re-engage consumers and drive sales.
- Growth in E-Commerce - Still untapped potential in expanding DTC reach and online visibility.
- Lean into sustainability - younger audience favors brands that support environmental activism.

Threats

- Rising Labor & Shipping Costs - Increases pressure on already tight margins.
- Competitive Market - Brands like Allbirds and Veja compete on sustainability and design.
- Operational Gridlock - Past creditor involvement could limit agility or investment flexibility.

Competitors

TOMS is unique in thier philanthropic mission, but they are not alone in this effort. Let's take a look at a couple of successful brands also aiming for social impact and analyze their differences.

patagonia

Has built a strong and loyal fanbase over time that involed hikers, and is purchased for all age groups within families

Goes further in sustainability - it leads every decision they make so it seems more authentic and less like marketing scheme

Shoes are engineered to last longer unlike TOMS which tend to be vulnerable to wear and tear

Patagonia strives for sustainability and social responsibility with an emphasis on recycled material, and ensuring living wages, amoung other things

BOBS from Skechers

Sell at a lower price ($35-40) compared to TOMS ($50-60)

While TOMS began to thrive due to the one for one model, it lost originality as other brands like this one, with more profitability replicated it

Reviews described BOBS as more durable and easier to wash compared to reviews of TOMS, while also more affordable

Partners with animal shelters, donates thousands of shoes, also supporting homeless shelters and contributing to disaster relief.

Problem 1: Pricing

Current Challenge

- TOMS has mid-range pricing (~$50–$70), but it competes with both budget and premium options. Its giving model no longer justifies a price premium on its own.

Pricing Solutions

- TOMS can lean into its pricing, making it seem like a luxury brand
    - Increase prices to ~$135
- TOMS can decrease prices and have lower margins
    - Decrease to ~$40
- Launch bundles or starter kits
    - Ex. Shoe + tote bag + sunglasses for a beach themed kit
- Offer student discounts, more rewards programs, and etc.

Problem 2: Sales Channels

Current Channels

- DTC (Direct to consumer) – TOMS.com
- Third-party retailers (Nordstrom, Zappos)
- Limited physical stores

New Sales Channels to Consider:

- E-commerce and mobile-first marketing (optimize for Instagram, TikTok shopping, Shopify)
- Sell through Gen Z platforms:
  - Urban Outfitters
  - ASOS
  - PacSun
- Consider pop-up stores or events on college campuses and music festivals
- Collaborate with micro-influencers for direct product drops via affiliate links (drives marketing to

Problem 3: Market Fit Challenges

TOMS Shoes product offerings do not fit the current market demand. TOMS Shoes is mostly remembered as the original canvas shoe, which has since gone out of style. Additionally, as they have moved on from the “One for One” model, their profit-splitting giving model is no longer unqiue.

Analysis:

To improve Product-Market Fit:

- TOMS should run A/B tests on styles and campaigns
    - Ex. modern vs. vintage slip-ons

Some recent consumer demand trends:

- Affordable but stylish comfort
- Clear, authentic impact (not just donations)
- Sustainability and ethical sourcing
- Social media-worthy styles (especially Y2K nostalgia looks)

Market Fit Solution

TOMS may need to implement new marketing strategies to change its narrative. This includes pushing different shoe styles more and building a community around TOMS and its sustainability

How to Generate Demand

- They should launch new collections tied to causes or creators
  - Ex. Artists (Keith Haring), Activists, Influencers
- Move on from the original TOMS canvas shoe and capitalize on "conscious nostalgia": make shoes that look vintage but are eco-conscious and ethically made.
- Utilize social media campaigns to showcase their new story and styles
- Build UGC (User-generated content) campaigns, rewarding real customers for sharing how they are styling their TOMS
- Focus on marketing sneakers and vintage colorways
- Focus marketing on fashion+impact (not just philanthropy)
- Highlight materials: recycled canvas, vegan leather, low-impact dyes.
- Use storytelling to build emotional connection—highlight causes AND creators.

Recommended Solution: Building Brand Authenticity

TOMS needs to tap into trends to build an authentic brand like its successful competitors have. To do so, they need to give people a reason want the shoe further than just for the sustainabilty model. There are a few ways they can do this:

Tap into trends - Y2K:

Leverage “conscious nostalgia” by releasing retro-inspired collections made with recycled and ethically sourced materials. Use bold colors, throwback logos, and limited drops to create excitement.

- Ex: Limited-edition slip-ons and sneakers in recycled canvas with throwback logos and vintage stitching.
- Seasonal drops inspired by Y2K cultural moments (festival wear, skate culture) promoted via social media countdowns.

Partner with popular designers:

Collaborate with artists, fashion brands, and activists to release capsule collections that merge style, exclusivity, and impact.

- Keith Haring Foundation art line, with proceeds funding arts education in underserved communities.

Capsule with a climate activist using vegan leather and plant-based dyes, tied to reforestation campaigns.

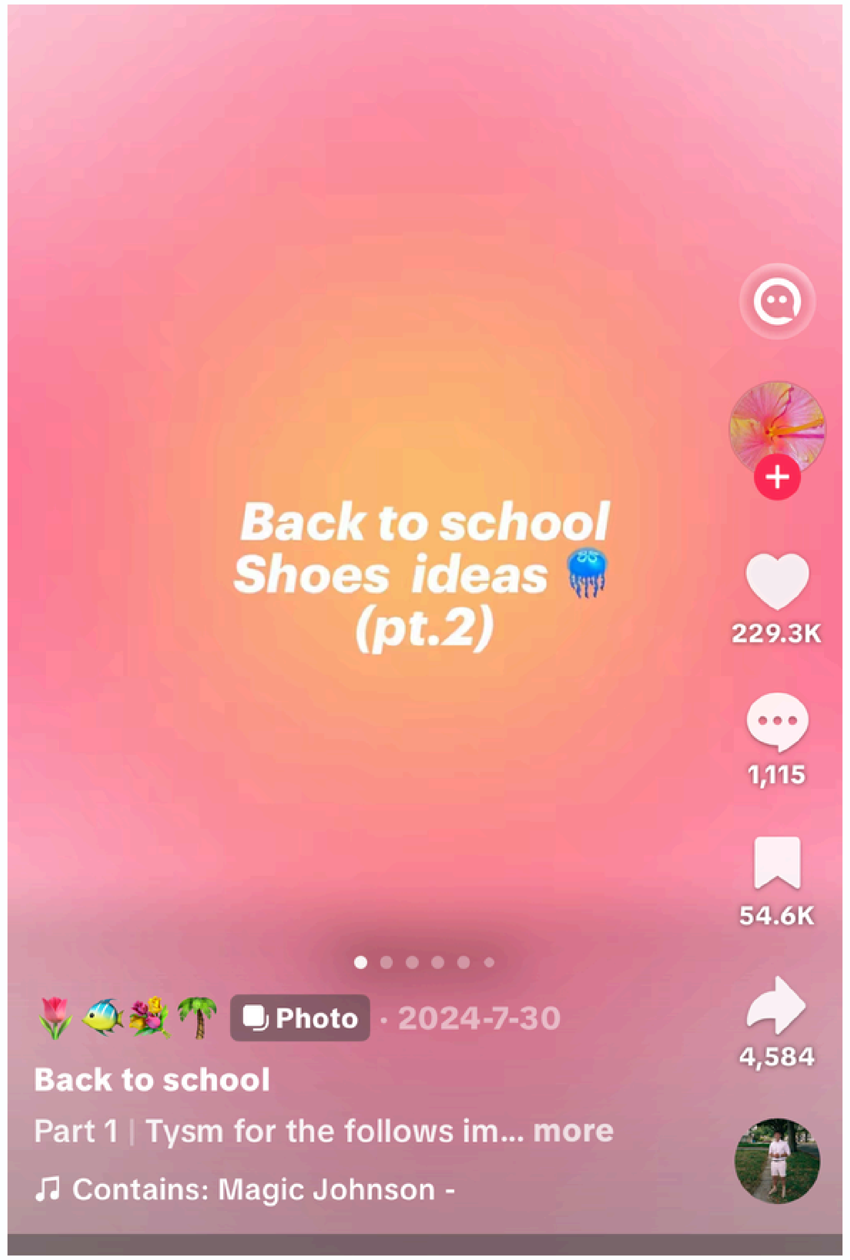
Recommended Solution: Building Brand Authenticity

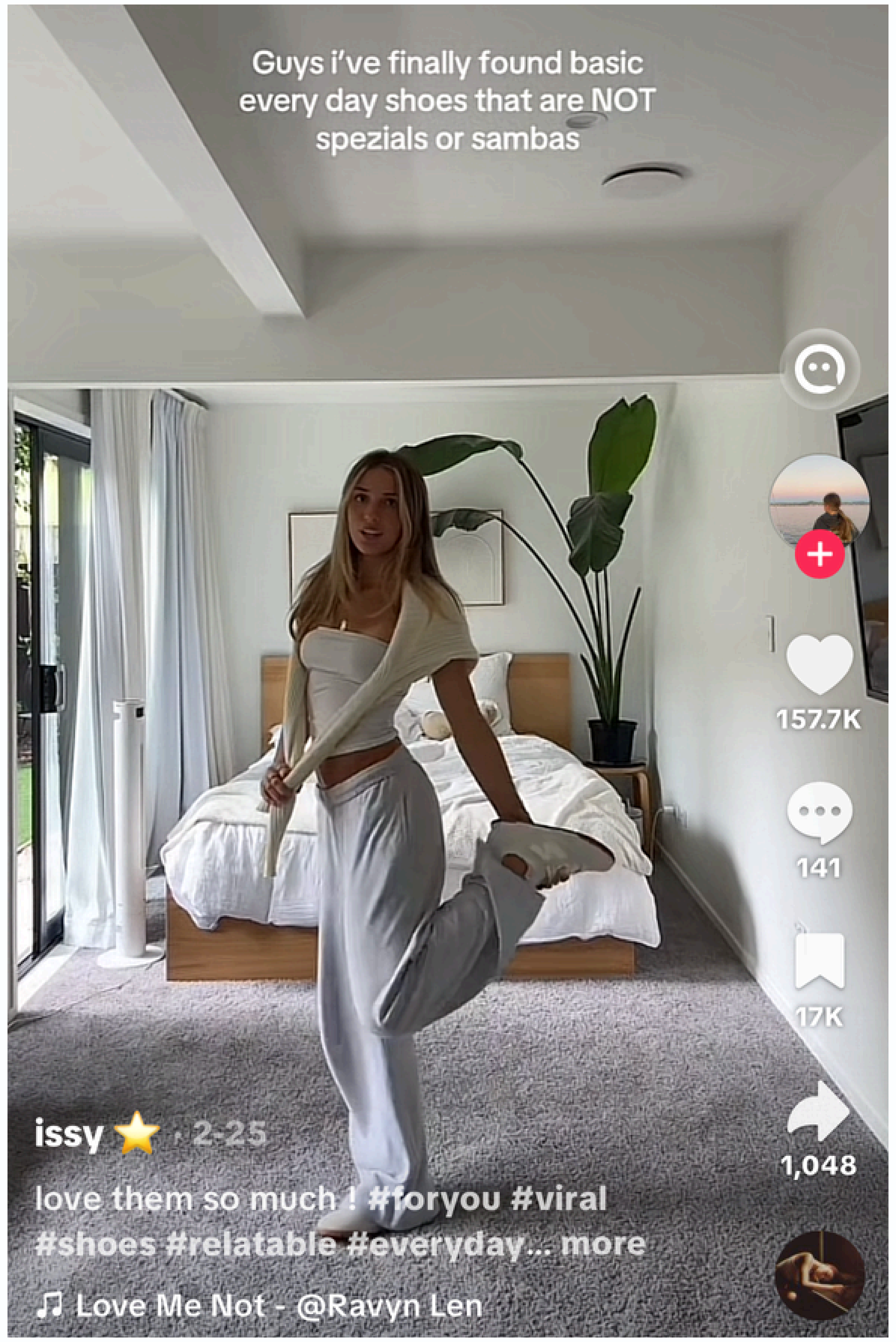
Influencers:

We have seen many brands thrive through the use of social media. As TOMS updates its design and taps into today's Y2K trends, they have the ability to promote its shoes through well-known influencers with paid promotions

- **Product Placement:** "Relatable" videos with popular influencers that showcase the shoe without seeming like an advertisement
- Introduces the ability to insert its brand into a group with other popular shoe brands -

Keywords can be "back to school", "everyday shoes", "slip on shoes", "y2k style" etc.





Debt Reduction

A Last-Resort Option
If traditional fundraising or business recovery efforts fall short, companies under financial stress, like TOMS, can consider debt restructuring as a way to reduce or exit debt burdens.

Key Options for Debt Restructuring

- Chapter 11 Bankruptcy
  - Allows a business to restructure its obligations.
  - Can provide time and flexibility to reposition the business.
  - Most common (and most likely the only) bankruptcy option in which the company could continue operations during the process
- Negotiated Settlements with Creditors
  - Debt holders may agree to reduced or restructured terms to recover more than in a liquidation.
  - Often used to avoid formal bankruptcy.
  -

Considerations in a Restructuring Scenario

- Used Only if Other Paths Fail
  - Debt restructuring is typically a last resort when raising capital or improving cash flow is not viable.
- Court Oversight May Be Required
  - Especially in formal bankruptcy, to ensure fairness to creditors and transparency in the process.
- The goal is to preserve as much value as possible for all stakeholders, especially creditors, compared to what they'd recover in a liquidation.

CIAG BUSINESS CONSULTING