Overview

- Deckers Outdoor Corporation can realize financial benefits from our proposed initiative to green manufacturing facilities in China. These benefits can arise from reduced risk (due to preempting regulations, increasing the certainty of resource availability, and avoiding negative public perception of Deckers) and positive consumer response (due to consumers who are more likely to recommend, buy, or pay more for Deckers products). For just one of the three anticipated cost-saving categories—avoiding negative public perception—an investment in the initiative will return $3.46 to $20 for every $1 spent.

- To help facilitate the implementation of our initiative, we created a Facility Audit and Green Facilities Recommendations Handbook. These tools will allow Deckers and the manufacturing companies to determine a baseline of the facilities’ current environmental performance and to learn how to green the facilities.

- We applied our tools to a case-study facility in Hebei, China, and developed 14 suggestions to improve the environmental performance of the facility.

Motivation

Deckers Outdoor Corporation is interested in improving its environmental performance. Thus far, Deckers has focused its sustainability efforts on its Simple Shoes brand through the use of facilities in China where Deckers manufactures only Deckers footwear. Based on the results of the facilities audit, we recommend implementing environmental-sustainability-focused policies, programs, retrofits, and upgrades to the manufacturing facilities in China where Deckers products are assembled.

Solution

In order to avert the risks posed by outsourcing manufacturing to China, this project is focused on the following initiative:

The Initiative

Create a division within Deckers to research, facilitate, and monitor the implementation of environmental-sustainability-focused policies, programs, retrofits, and upgrades to the manufacturing facilities in China where Deckers products are assembled.

Financial Analysis

Costs

Though the primary costs to improve the facilities will fall on the manufacturing companies themselves, Deckers will incur some costs to fund the initiative. These costs will include staff salary and overhead, consultations, and membership fee, and will total $840,000 for the first year and increase by 5% every year.

Benefits

The two main sources of benefits to Deckers, as outlined to the right, are risk reduction and positive consumer response.

- Negative public perception of Deckers could be caused by either a catastrophic event such as a spill or contaminated products, or simply by poor current environmental practices catching the public’s attention. Because this category of risk has the most potential to affect Deckers’ bottom line directly, we have quantified its potential to save Deckers money. To do this, we considered how the following two factors would vary with and without the initiative:
  1. The percent loss in profit caused by the event
  2. The probability of such an event occurring

- Probability: 10% – 40%
- Profit Loss: 10%

The cost of taking action to decrease the risk of a negative event is significantly less than the cost of not taking action. The following findings, which were developed to support the cost-benefit analysis, are specified by Deckers management and consultants, based on the lack of a dedicated sustainability department at Deckers and the current success and visibility of the Ugg brand, which invites attention from consumers and watching organizations.

Without Initiative

Profit Loss: 10%

Justification: Specified by Deckers management and consultants, confirmed by market research into similar events (e.g. Asia Free Trade Agreement’s use of sectoral agreement in revenue of 15.5% from 1997 – 1998, a time when the overall footwear industry was growing).

Probability: 10% – 40%

Justification: Specified by Deckers management and consultants, based on the lack of a dedicated sustainability department at Deckers and the current success and visibility of the Ugg brand, which invites attention from consumers and watching organizations.

With Initiative

Profit Loss: 5%

Justification: While it is likely that with the initiative, Deckers will be better equipped to handle a negative event and reduce the impact on profits, we maintained the assumption of 10%.

Probability: 5%

Justification: While having stronger environmental regulations at the facilities in China will reduce the risk of a negative event, there is always some probability that a catastrophe will happen once a consumer group will find fault with the current practices.

Results: Return on Investment

$3.46 – $20 for every $1 spent

Case Study

To test our tools and generate a product for Deckers to begin implementation, we conducted a case study on a manufacturing facility in Hebei, China. The manufacturing facility is a multi-building campus that manufactures only Deckers footwear. Based on the results of our audit and using our handbook, we developed priority and secondary suggestions for the case study facility. These suggestions, which are elaborated on in the report, include the following:

Priority Suggestions

- Insulate hot water pipes
- Paint roof white
- Improve lighting efficiency
- Perform water audit
- Harvest rainwater
- Conduct a waste stream audit and create a solid waste management policy
- Test noise and air quality
- Conduct training
- Commission the building

Secondary Suggestions

- Install solar tubes
- Purchase environmentally-friendly vehicles
- Grow an organic garden
- Landscape for natural cooling

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