

THREADLESS

Creation of Communities

A Multimedia Case

This multimedia case explores Threadless.com, an online t-shirt company using community-based innovation and product development. Based on an ongoing competition, Threadless community members create and submit t-shirt designs, provide feedback, cast votes, and purchase t-shirts.

Videos 1 & 2: Explain the birth of the company, its growth, its production processes, the visions of the cofounders, and entrepreneurial challenges.

Core learning objectives include:

1. Operations Management, Marketing, and Strategy
2. Social networking
3. Community-based marketing
4. Innovation & product development
5. Profit analysis

Students are expected to examine:

1. Managing a team in a online business environment
2. E-commerce strategies
3. Strategic partnering

Questions for Discussion – read the summary attached

1. Why do DESIGNERS participate?
2. Why do CUSTOMERS participate?
3. Why is Threadless Needed?
4. What are the characteristics of:
 - Products?
 - Community?
 - Company?
5. Should we accept the Large Retail retailer offer?
 - Reasons for accepting?
 - Reasons for rejection?
6. Is there any Open Innovation going on in this case?
7. How could you improve the current model if you were the CEO?

Below is the Summary of Threadless.com

Watch the two videos, first

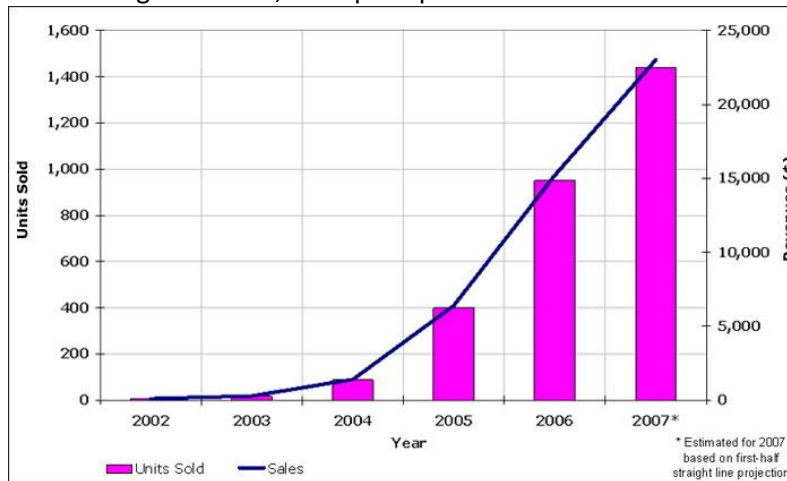
- ➔ the online, Chicago-based t-shirt company
- ➔ run by Jake Nickell, Jacob DeHart, and Jeffrey Kalmikoff
- ➔ anyone can submit designs for t-shirts
- ➔ asked its community of over 500,000 members to help select winning designs
 - actively participate by critiquing submitted designs
 - blogging about their daily lives
 - posting songs and videos inspired by the designs
 - purchasing t-shirts that have won the weekly design competitions.
- ➔ In 2007, selling more than 1.5 million t-shirts
- ➔ success had garnered significant media attention
 - NYT & USA's National Public Radio highlighted its unique community-based business model
 - piqued the interest of large traditional retailers
- ➔ Nickell, DeHart, and Kalmikoff were now faced with making a decision:
- ➔ Receive potentially lucrative offer from a major retailer offering to carry large volumes of select Threadless t-shirts in its retail stores. Should they accept?

- Jeffrey CCO
- Co-founders Jake CEO & Jacob CTO
- Started Jake's apartment
- 25,000sq ft office warehouse
- People create & upload designs to site
- Evaluated by community
- Receive final score in 7 days
- Based on input, they select which to print
- 2,500 in cash and gift certificates for designer
- 7 new designs & 2 reprinted designs weekly
- Problem: Partner with retailer?

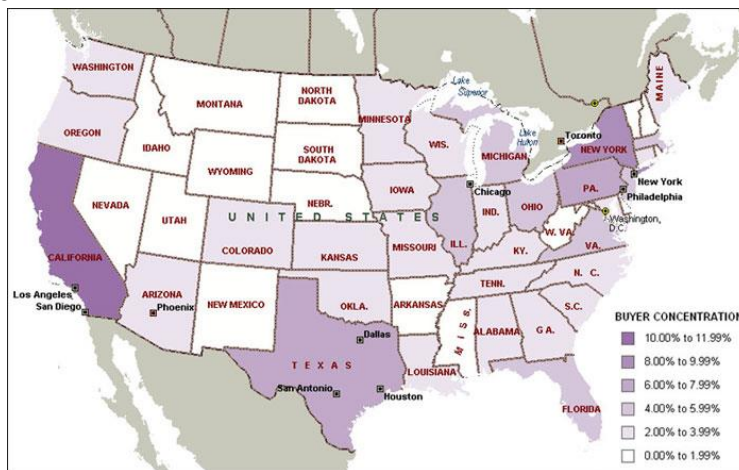
Business Model

- Jake Nickell and Jacob DeHart met on Dreamless in 2000, a 3000-plus member online message board for designers
- t-shirt competition for an event in London, Nickell won. His design was official shirt at this event in London. He doesn't own a copy of that shirt
- co-creation with a community was a relatively untapped market
- Both were amazed by the variety and high quality of submissions received by the community organizers.
- whole idea and the whole process of designing and winning the competition and voting on peers' work that was really fun
- Threadless as a hobby, and as an outlet for the community of artists on Dreamless.
- next step was starting SkinnyCorp, which was a Web development company
- Threadless as a side project to prove to our clients that we actually could make Web sites.
- Threadless started growing. From couple of hundred t-shirts out of Jake's 900 sq. ft. apartment, and then it started snowballing.
- In 2003, Nickell and DeHart partnered with Jeffrey Kalmikoff for design work for the Web sites they were developing for SkinnyCorp clients.
- But by early 2004, sales growth, order fulfillment requirements, and the demands of running a burgeoning online community on Threadless were squeezing out work being done for the SkinnyCorp clients.
- Nickell, DeHart, and Kalmikoff subsequently made the strategic decision to abandon their Web design clients and focus all their energies on Threadless.

- The largest-to-date 2004-2006 growth period found the Threadless team moving from its 900 sq. ft. office to a 3,700 sq. ft. space, and then again to a 25,000 sq. ft. space



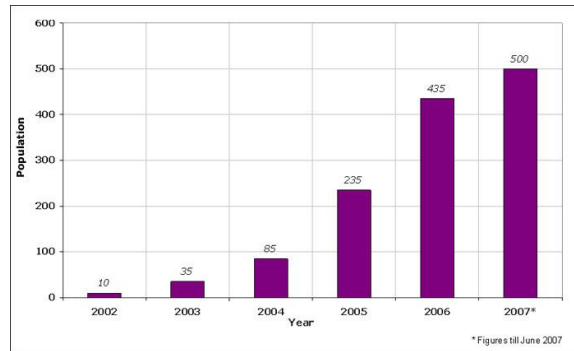
- Website hosting and internet bandwidth costs approx \$75,000/month
- In 2007, Threadless, with 30 full time employees was on track to sell more than 1.5 million t-shirts accounting for in excess of \$23 million in revenues.
- Growth = increased reward to winning designers from the \$100 cash prize offered in 2002 to \$2000 cash and \$500 in Threadless gift certificates by mid 2007
- Threadless t-shirts, priced at \$15 for "guy" t-shirts and \$17 for "girly" and kids t-shirts, were sold exclusively through the Web site
- Threadless also printed some designs as hoodies and children's onesies, which were sold at \$40 and \$20, respectively
- After printing, t-shirt, and transportation expenses were aggregated, cost per t-shirt ranged from \$5 to \$7
- Threadless t-shirts were discounted to \$10 during four major sales per year, around which a large percentage of company sales was clustered.
- In 2006, Map of Sales



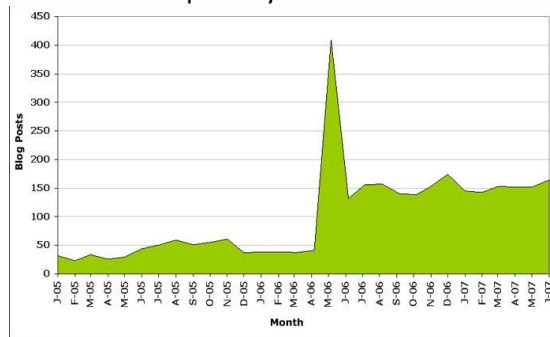
Community

Art gallery business model

- proprietors, facilitators, artists, people buying, people appreciating
 - designers are a part of a huge part of growth
 - designers' best interest to get people to sign up
 - one designer bringing in an average of 10 people
- Originally reflecting the community forum atmosphere of Dreamless, Threadless relies on its community of more than 500,000 people for the core operations of its business.
 - Growth in Threadless community size since 2002



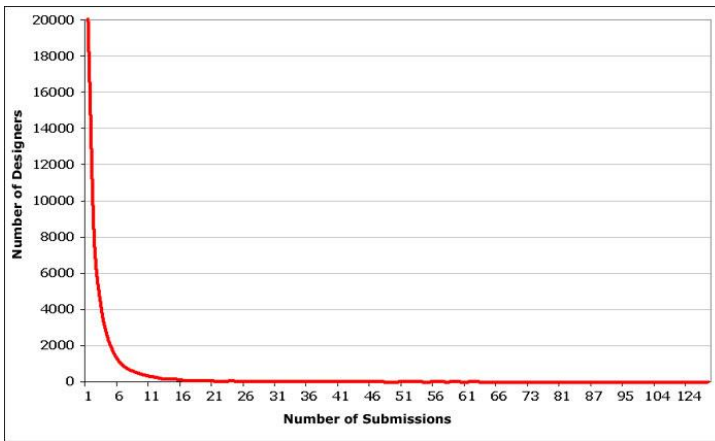
- Threadless community is made up of a lot of different types of people that use the site for varying reasons.
 - simple consumer who wants to go to our website and buy new shirts.
 - Designer college student or someone who likes to design t-shirts in their free time
 - they use the site to practice design skills and get feedback from fellow artists
 - a lot people who enjoy interacting with consumers and designers and participating in our blog section
- growth in blog postings on the site over the past 3 years



- every community member is part of the Street Team
 - Street Team system is a point based system
 - Allows Threadless users to accrue points and credit for future Threadless purchases
 - users send in digital pictures of themselves wearing purchased Threadless t-shirts
 - If pictures are featured in the product photo gallery, the user receives \$15 credit
 - the Street Team incorporates a reward referral system
 - Each user can recommend t-shirts to people in their own social network
 - If someone buys a t-shirt through a referral link, the referring user receives \$1.50 Threadless credit per purchased t-shirt
- many people that like to promote the site for Threadless, and they link it to their blogs.
- users use Street Team program to earn referral points to get free shirts.
- Word-of-mouth marketing and press coverage two major sources of Threadless expansion

Design

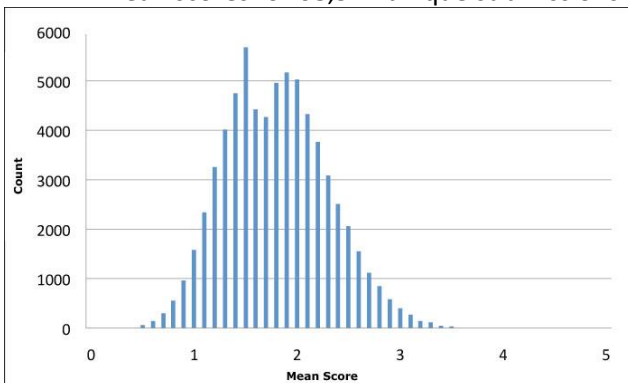
- Since its inception, Threadless had received more than 133,000 design submissions from 41,666 community members since inception
- Frequency of number of designs submitted



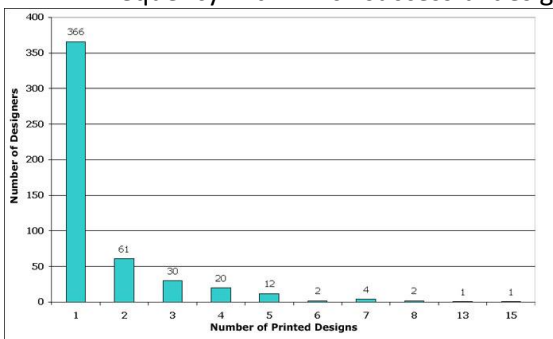
- Each design that met the minimum submission criteria was up for voting for a seven-day period
- Once a week, Threadless employees selected from as many as 100 top scoring archived designs the six to eight that had garnered the most community votes
- Voting patterns

	Submissions Received	Votes Received	Average	Standard Deviation
All Designs	134,329	80,561,086	599.73	789.69
Non-Winning Designs	133,527	79,237,921	593.42	785.15
Winning Designs	802	1,323,165	1649.83	839.37

- As of June 2007, printed 802 designs submitted by 499 community members.
- mean scores for 68,547 unique submissions that were judged and voted on by the Threadless community

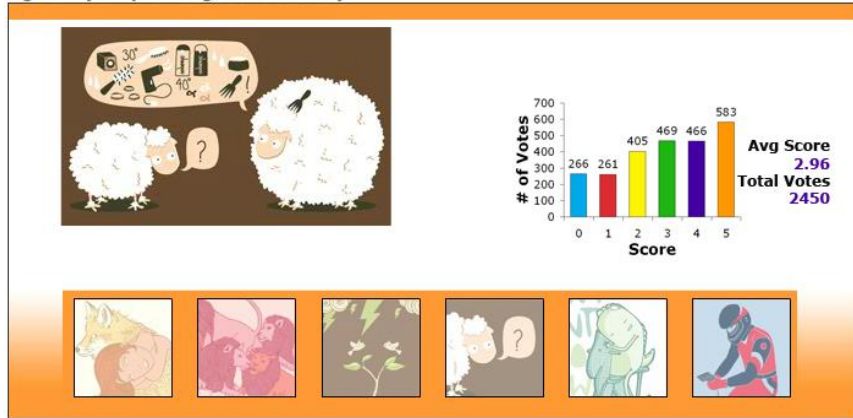


- frequency with which successful designers win



- winning designers were rewarded with membership in the Threadless alumni club, a private forum for exchanging feedback and advice.
- Figure 1 (Sample Designs and Scores)

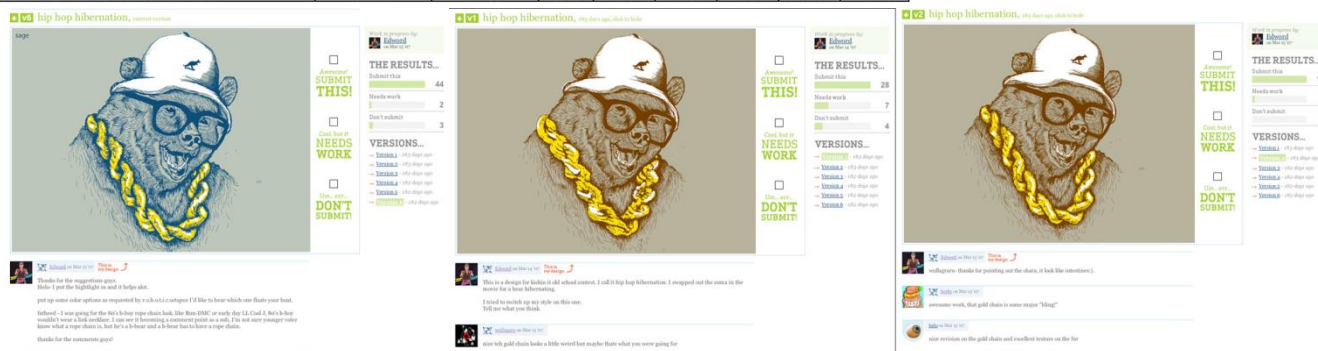
Figure 1 (Sample Designs and Scores)



- Table 1 (Distribution of Scores for Sample Designs) show 25 sample designs and their scoring patterns

DESIGN NAME	TOTAL VOTES	AVG SCORE	0	1	2	3	4	5
ADORABLE DISASTER	2237	3.01	262	253	301	397	428	596
CHAMPION RUNNER	2329	2.80	320	283	388	403	431	504
DEAD SUCKER	2704	2.73	395	368	432	486	435	588
DON'T GIVE UP ON YOUR DREAMS	2599	2.89	303	265	449	527	504	551
DON'T WORRY	2427	2.59	377	359	409	471	369	442
ELECTRIC JELLYFISH	2209	2.72	292	268	402	438	428	381
FUR LADIES	2101	2.62	381	273	336	344	316	451
GAY PRIDE	2567	2.49	493	391	419	389	367	508
H2O'S SACRIFICE	2338	2.81	290	276	402	466	424	480
HAIRSTYLE'S SECRET OF A SHEEP	2450	2.96	266	261	405	469	466	583
I DON'T WANT TO GROW UP	2360	2.64	289	344	487	449	384	407
IN THE FAST LANE	2396	2.66	322	329	419	507	402	417
LAB PARTNERS	2028	3.03	201	216	307	411	382	511
LIBERTY NOR SAFETY	2044	2.59	374	309	307	317	273	464
PHASCOLARCTOS CINEREUS	2586	2.60	387	356	479	517	373	475
PLAY	2014	2.64	289	272	345	419	353	336
PRETTY WORLD INFERNO	2667	2.37	432	457	554	495	366	363
SWISS ARMY	2611	3.35	246	206	300	402	554	903
THE ACCIDENT	2637	2.51	405	414	474	518	428	398
THE ELUSIVE CHOCOLATE MOOSE	2304	2.36	349	398	475	502	321	259
THE EMBROIDAIRIES	2406	2.69	332	339	443	398	407	487
THE EMERGENCE OF THE EASTER EGG	2354	2.33	361	418	512	487	306	270
THERE'S NO CRYING IN BREAKFAST	2559	3.00	265	314	406	422	487	665
SHE SCREAMED BUT TO NO AVAIL	2441	2.79	323	282	411	489	434	502
UNDERSTANDING BIRD SONG	2540	2.88	272	301	462	493	459	553

- Users have access to a design critique portal on the Threadless Web site.
- Rather than just submitting designs, artists were posting blogs about work in progress and getting the community's feedback
- blogs as a way to get design feedback before submitting to maximize the chances of their designs scoring highly
- Design critique section



- post your design idea and people vote on whether they like it or not, leave constructive comments
- Artists can upload new versions of their designs so you can actually track the versioning from the initial idea to the final product

Culture

- Threadless strove to adopt the community feel even within the office environment
- The blog forum as a platform where 30-person staff regularly interacted with other Threadless community members throughout the day, and vice versa
- Communication, transparency, hard work, and fun were key to Threadless culture office and online
- employees was implicitly trusted to accomplish what needed to get done while taking the time to enjoy each other's company and develop personal friendships
- built-in motivation for the staff to produce high-quality work that would ultimately benefit the entire Threadless community.

Business Process

- operational excellence in both the virtual and physical worlds
 - Web as the basis for interaction between Threadless and its community
- deal with reality of producing and shipping more than 1M t-shirts/year to meet customer orders
- Supply chain management was a non-trivial task that demanded logistics capabilities able to support the printing, warehousing, and shipping of t-shirts and handling of returns
- Content Management System
- Proofing and printing process – starch, fabric; vendors made to welcome as family
- Distribution
- Warehouse Management

Strategy Meeting

- early August 2007, DeHart, Kalmikoff, and Nickell gathered in the fishbowl conference room at Threadless HQ to discuss the offer from the major retailer
- The offer to sell Threadless t-shirts in massive retail stores across the country was something unexpected
- Many issues were on the table as Nickell kicked off the meeting . . .
 - Huge distribution opportunity
 - Increase sales
 - Retailer wants access to catalog
 - Order shirts in huge quantities, the popular ones
 - Positives: good publicity for designers, financial benefits
 - Story behind Threadless being sold in retailer – just another t-shirt company
 - Repackage shirts with cards with story? Huge overhead
 - No design meet up in the middle of mall – affect sales of shirts?
 - People buy shirts because of Threadless story
 - Business-to-business may scare away customers and designers; end up with mediocre t-shirts
 - No advertisement; all organic. No pushing products to customers
 - Users take pride that t-shirts they buy no one else has
 - Users take ownership of threadless, may lose interest and lose sense of ownership
 - Threadless may be boycotted (?)
 - Retailers make huge orders, allowed to make returns if Threadless doesn't follow guidelines
 - Distribute without adding costs; but how to maintain 7 new shirts and 2 reprints a week while maintaining sales and new production runs for retailer?
 - Retailer production to cut into current production?
 - Small moves receive big reactions already. What more retailer contract?
 - Could be damaging to community, or it could improve sales ultimately