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What Didn't Work

Nau and Again

By Suzie Boss

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Action What Didn't Work

Nau and Again

The sustainable outdoor clothing company Nau tried on too much, too fast **BY SUZIE BOSS**

WHEN NAU, AN OUTDOOR clothing start-up from Portland, Ore., launched in 2005, word on the street had it that the company would push socially responsible business to new heights. Nau's vision featured sustainable fabrics, an energy-saving retail plan, and outsized corporate philanthropy. Its leadership was an all-star team plucked from Patagonia and Nike. And its fans in the press practically swooned, with outlets ranging from *Fast Company* to *Sustainable Industries* to *Treehugger* calling Nau "bold," "audacious," and "revolutionary in concept."

But barely a year after putting its earth-toned parkas and virgin merino wool sweaters up for sale in its übercool "webfront" stores, Nau had burned through \$35 million and could not secure another round of funding. In May 2008, less than two weeks after opening its fifth store, Nau pulled the plug.

A few weeks after the company's demise, California-based Horny Toad, a privately held outdoor clothing company with a strong social conscience, bought Nau's assets for an undisclosed sum. Several executives from the original team are back for Nau 2.0, and many of Nau's core ideas are getting a second chance. For Nau to rewrite its story with a happier ending, however, the company will have to shed its original business model, which had too many untested components and all-or-nothing goals.

"If we fail this time," says Horny Toad CEO Gordon Seabury, "we fail worse because we have the benefit of hindsight."

REINVENTING EVERYTHING

Eric Reynolds, founder of outdoor clothing maker Marmot Mountain and an accomplished mountaineer, had the initial brainstorm that became Nau. Working his outdoor industry connections, he wooed A-list executives to put his vision into action, with Nike veteran Chris Van Dyke as CEO.

"He laid out the opportunity to design an entire enterprise—not just a product line—from the ground up, with sustainability at the center," relates Ian Yolles, who left Nike to become Nau's vice president of marketing. Creative gurus from Patagonia rounded out the top team. The company's first business name

was UTW for Under the Wire—or, internally, "Unfuck the World."

Nau's leaders took a hard look at business as usual and reinvented many of the elements of outdoor apparel production. "They had so many cool ideas and such passion around those ideas, and they were trying to do it all in a holistic way," says marketing expert and outdoor enthusiast John Winsor, author of *Spark: Be More Innovative Through Co-Creation*. He was impressed enough with Nau's bold thinking to invest in the company. But looking back, he agrees with Yolles' assessment that the model "just had too many moving parts."

Nau tried to innovate on many fronts, including:

- **New retail concept:** Instead of distributing merchandise through wholesalers, Nau set out to sell directly to consumers

A model rocks out in a wool hoodie from Nau's Fall 2008 collection. Although the company's products aimed to be sustainable, its business model was not.



in its own trademarked webfronts. These stores—outfitted with recycled materials and electronic self-serve kiosks—were intended to fuse traditional shopping with e-commerce. Consumers could touch, feel, and try on products, but they were discouraged from walking out the door with them. Instead, they received a 10 percent discount and free shipping if they elected to have purchases sent home. These webfronts were intended to reduce inventory, to cut transportation costs, and to allow for smaller, more energy-efficient stores.

Yet this novel sales approach may have left customers confused. “When consumers go into a store to spend money, they want to leave with what they purchase,” says David Howitt, who was an executive at Adidas America before founding the Meriwether Group, a venture capital firm in Portland. “It was a significant hurdle to ask them not to do so.”

■ **New charitable goals:** Nau’s Partners for Change philanthropic program promised to donate 5 percent of sales to social issue and environmental charities. This goal was appealing, but ultimately not affordable. By comparison, socially minded companies like Patagonia donate 1 percent of sales to charity.

■ **New product standards:** When it came to product development, Nau sought to balance performance, sustainability, and beauty. Yet these three goals “are considered antithetical and mutually exclusive in the traditional design paradigm,” says Yolles. For instance, Nau’s decision to avoid eco-unfriendly substances in its fabrication and finishing processes eliminated many of the dyes used to produce bright colors. Fabrics that required dry cleaning were another no-no. Nau did manage to convince textile manufacturers not only to create sustainable fabrics from scratch, but also to share innovations with competitors through an open-source approach.

“I was in awe of how many things they were trying to do at once,” says Seabury, who has been working in outdoor apparel since launching Horny Toad in 1996. “When it comes to sustainability—in terms of what’s recyclable, organic, traceable—they went far beyond what any brand in our industry has been able to do.”

“Product development is where they really walked their talk,” says Howitt. “They made a statement, and made it loud, that you can build a great product that has performance attributes, and do it in a 100 percent sustainable way.”

Yet great products were not enough. Howitt says his firm was approached to invest several times. “Nau fit our investment criteria, and on a personal level it fit how we live and breathe,” he says, “but we just couldn’t get our arms around their business model.”

GO BIG, GO HOME

Nau also upped the ante with a profitability plan that required rapid expansion. When it folded, Nau had five stores open, four under construction, and plans to open another 100-plus stores within five years. Negotiating that many leases alone would have taxed the resources of a much larger company, says Howitt.

“The brand was all about sustainability and thinking long term, yet the financing was the opposite of that,” says Winsor. “It was, ‘grow fast, exploit the opportunity, and then kick out.’ This was a huge disconnect.”

Mike Edwards, former CEO of Lucy Activewear, also based in Portland, attributes Nau’s demise to this “dot-com mentality. It’s hard to expand too quickly before you have a proven model,” he says. “Venture capitalists only invest if they can see a great exit strategy.”

Although Nau pitched to every venture capitalist who would listen, it consistently struck out. Investments came from individuals and a private equity firm. When the next round of dollars didn’t fall into place, Nau blamed the evaporation of capital markets.

Coming from corporate backgrounds, Nau executives had never

When sustainable apparel retailer Nau talked about “all-or-nothing,” says Seabury, “I don’t know if they realized it could be nothing.”

raised significant capital, Yolles acknowledges. “Nobody in the organization had ever been entrepreneurial—nobody had ever failed,” Winsor adds. Seabury suspects this lack of “garage band” history made it hard for Nau to respond to changing circumstances. “When they talked about all-or-nothing,” he says, “I don’t know if they realized it could be nothing.”

NAU 2.0

Seabury appreciated the intent of Nau from the outset. He was wowed by the product line and impressed by the buzz that the start-up generated. But this time around, he says, Nau will emphasize a new kind of sustainability: *financial* sustainability. His goal is to keep the essence of Nau 1.0, but wrap it in a new business model. He brings to the task not only an MBA from the Wharton School of the University of Pennsylvania, but also the experience of taking Horny Toad from a start-up to a staff of 60 over the past 12 years.

Nau 2.0 does away with the webfront concept, relying instead on specialty retailers plus online sales while sharing back-end operations with Horny Toad. Philanthropic giving is scaled back from 5 percent to 2 percent of sales. Nau’s staff has shrunk from 60 to about a dozen, including a new general manager. (The original creative team is still on board, as is Yolles.) The smaller product line holds true to Nau’s aesthetics and sustainability goals. The burn rate of capital “will be substantially slower,” Seabury promises.

Presenting these changes, Seabury convinced his board to acquire Nau as a wholly owned subsidiary of Horny Toad. He also lined up enough funding, primarily from his board members, to cover Nau’s five-year plan, which predicts a turn to profitability in two years.

One more change to watch for: a different tone. As Seabury says, “Horny Toad is very humble. We’ve always walked the talk and hoped people would notice.” Nau 1.0 proved it could tell a great story about sustainability. “The last thing I want,” Seabury says, “is to give anybody fodder to say it can’t be done.” ■