Threadless: The Business of Community (Text Only)

Threadless.com, the online, Chicago-based t-shirt company, was not your typical fashion apparel company. Established in late 2000, Threadless did not have an elite cadre of internal designers that churned out hip, cutting-edge t-shirts. Instead, the company, run by Jake Nickell (Chief Executive Officer), Jacob DeHart (Chief Technology Officer), and Jeffrey Kalmikoff (Chief Creative Officer), turned the fashion business on its head by enabling anyone to submit designs for t-shirts and asking its community of more than 500,000 members to help select winning designs.

Threadless encouraged community members to actively participate by critiquing submitted designs, blogging about their daily lives, posting songs and videos inspired by the designs, and, most important, purchasing t-shirts that have won the weekly design competitions. All printed designs typically sold out, and were then retired from the active catalog to make room for new designs. In 2007, Threadless was well on its way to selling more than a million and a half t-shirts.

Threadless' success had garnered significant media attention, the New York Times and USA's National Public Radio highlighting its unique community-based business model, and had piqued the interest of large traditional retailers. Nickell, DeHart, and Kalmikoff were now faced with making a decision about a potentially lucrative offer from a major retailer offering to carry large volumes of select Threadless t-shirts in its retail stores. Should they accept?
Business Model

Jake Nickell met Jacob DeHart on Dreamless, a 3000-plus member online message board for designers, in 2000. "There was a t-shirt competition for an event in London," Nickell explained, "and I ended up winning. So my shirt was used as the official shirt at this event in London. And even today, years later, I still don't have a copy of that shirt!"

The experience of winning a t-shirt design competition sponsored by the Dreamless community suggested to Nickell and his Dreamless forum friend DeHart that 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. "It was just the whole idea and the whole process of designing and winning the competition and voting on my peers' work that was really fun," recalled Nickell. "Jacob and I started talking about how we could turn this idea into a real, ongoing project. We started Threadless as a hobby, and as an outlet for the community of artists on Dreamless. Our next step was starting SkinnyCorp, which was a Web development company. We had Threadless as a side project to prove to our clients that we actually could make Web sites. And then, Threadless just really started growing. At first, we were selling just a couple of hundred t-shirts out of my 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\(^2\) to accommodate explosive sales and house a growing staff and expanding inventory. Website hosting and internet bandwidth costs were estimated to be about $75,000 per month. In 2007, Threadless, with 30 full time employees\(^3\), was on track to sell more than 1.5 million t-shirts accounting for in excess of $23 million in revenues\(^4\). (Exhibit 1 shows growth in units sold and revenues since 2002.) Growth in the business also enabled


\(^{4}\) Operating margins for firms in the casual designer retail space were as follows: The Gap 9.5% (2008); Urban Outfitters 14.9% (2008); Inditex (Zara) 17.5% (2008) and H&M 23.7% (2007). Source: Google Finance.
Threadless to increase the 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, 71% of sales were to US based customers (see Exhibit 2 - Map of Sales), the remainder to community members in more than 100 other countries, Australia, Canada, Germany, Norway, Singapore, Sweden and the United Kingdom accounted for the bulk of the foreign sales.

Community

Originally reflecting the community forum atmosphere of Dreamless, Threadless relied on its community of more than 500,000 people for its core business operations. (Exhibit 3 plots the growth in the size of the Threadless community since 2002.) "The Threadless community is made up of a lot of different types of people who use the site for varying reasons," DeHart explained. "There is the simple consumer who wants to go to our Web site and buy new shirts. There is the designer, perhaps a college student or someone who likes to design t-shirts in his or her free time, who uses the site to practice design skills and get feedback from fellow artists. There are also just a lot people who like the idea of Threadless and enjoy interacting with consumers and designers and participating in our blog section." (Exhibit 4 shows the growth in blog postings over the past three years.)

In addition to being designers, voters, and buyers, every community member belonged to the Street Team, a point-based system by which credit was earned towards future Threadless purchases. Community members sent in digital pictures of themselves wearing purchased Threadless t-shirts. Those whose pictures were featured in the product photo gallery received a $15 credit, the cost of one Threadless t-shirt. The Street Team also incorporated a reward referral system whereby users could recommend t-shirts to people in their own social networks. Referring community members received a $1.50 Threadless credit for each t-shirt purchased through a referral link. "There are many people who like to promote the site for us," observed DeHart, "and they link it to their blogs. These community members use our Street Team program to earn referral points to get free shirts." Word-of-mouth marketing and press coverage had been the two major drivers of expansion of the Threadless community.

Design
Since its inception, Threadless had received more than 133,000 design submissions from 41,666 community members. (Exhibit 5 shows the frequency of the number of designs submitted by community members.) 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. (Exhibit 6 shows voting patterns.) As of June 2007, Threadless had printed 802 designs submitted by 499 community members. Exhibit 7 shows mean scores for 68,547 unique submissions that were judged and voted on by the Threadless community. Exhibit 8 shows the frequency by which successful designers win in Threadless. Beyond the prize money, winning designers were rewarded with membership in the Threadless alumni club, a private forum for exchanging feedback and advice.

In addition to voting for and blogging about submitted designs, community members had access to a design critique portal on the Threadless Web site. "We discovered that our community members were using the Threadless blogs in a way that we had not initially expected," observed Kalmikoff. "Rather than just submitting designs, artists were posting blogs about work in progress and getting the community’s feedback. They were using the blogs as a way to get design feedback before submitting to maximize the chances of their designs scoring highly. Once we saw this, we created a design critique section in the blogs. You post your design idea and people vote on whether they like it or not and 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." (Exhibit 8 provides an example of a design critique.)
Culture

In keeping with its unique business model, Threadless strove to adopt the community feel even within the office environment. The blog forum provided a platform by means of which the 30-person staff regularly interacted with other Threadless community members throughout the day, and vice versa.

Communication, transparency, hard work, and fun were key elements of the Threadless culture, both in the office and online. The employee team was implicitly trusted to accomplish what needed to get done while taking the time to enjoy each other's company and develop personal friendships. As with the self-perpetuated online design and voting experience, there was built-in motivation for the staff to produce high-quality work that would ultimately benefit the entire Threadless community.

Business Process

Threadless' business model presumed operational excellence in both the virtual and physical worlds, with the Web as the basis for interaction between Threadless and its community. All key elements of the innovation and product development process as well as consumer shopping were enabled by the Internet. Threadless had to deal with the reality of producing and shipping more than one million t-shirts per 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.
In early August 2007, DeHart, Kalmikoff, and Nickell gathered in the fishbowl conference room at Threadless headquarters 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, and needed to be fully explored. Many issues were on the table as Nickell kicked off the meeting . . .
Exhibit 1  Threadless Revenues & Units Sold from 2002-2007 (in thousands)

![Graph showing Threadless Revenues & Units Sold from 2002-2007](image)

Source: Casewriters – based on company data.

Exhibit 2  Map of U.S. Sales by Zipcode from 2005 – 2007

![Map of U.S. Sales by Zipcode](image)

Source: Casewriters – based on company data.
Exhibit 3  Community Population from 2002-2007 (in thousands)

Source: Casewriters – based on company data.

Exhibit 4  Monthly Blog Posts on Threadless: January 2005 - June 2007 (in thousands)

Source: Casewriters – based on company data.
Exhibit 5  Frequency of Design Submissions

![Frequency of Design Submissions Graph]

Source: Casewriters – based on company data.

Exhibit 6  Design Voting Patterns

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<th>Submissions Received</th>
<th>Votes Received</th>
<th>Average</th>
<th>Standard Deviation</th>
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<tr>
<td>All Designs</td>
<td>134,329</td>
<td>80,561,086</td>
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<td>1,323,165</td>
<td>1649.83</td>
<td>839.37</td>
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</table>

Source: Casewriters – based on company data.
**Exhibit 7**  Mean Scores for 68,547 Unique Submissions

![Graph showing mean scores](image)

Source: Casewriters – based on company data.

**Exhibit 8**  Frequency of Winning Designs

![Bar chart showing frequency](image)

Source: Casewriters – based on company data.