

OWL TOWELS™ BENCHMARK FIRM: L.L. BEAN

By

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### **Honors Leadership Statement: Jon Sales**

The project of our thesis was the creation of a performance towel manufacturing company, aptly named Owl Towels™. The firm's team was comprised of Ross Peterson, Jason Phillips, Avi Tal, and me. My role was that of General Manager, Ross Peterson was the Financial Manager, Jason Phillips was the Operations Manager, and Avi Tal was the Marketing Manager. I led the group through my coordination, scheduling, leadership, and research efforts. I contributed a substantial portion of the industry and marketing research through various academic sources, as well as brought significant outside administrative experience to help facilitate the academic and business processes. Also, the experience of participating in the graduate section of the fall semester entrepreneurship capstone course was significant to our venture by having older students with significant outside business experience help derive what is most important to focus on in the venture, what problems may arise with new ventures, and how to mitigate those problems.

This benchmark thesis was done independently of the group to serve as a benchmark firm, not only in terms of operational benchmarking, but also of venture creation, development, and start up benchmarking of a small organization offering a product portfolio of physical goods to active consumers. L.L. Bean would not necessarily be a direct competitor to Owl Towels™, but it could one day serve as a potential partner or distribution outlet for our products. L.L. Bean's target demographics matched well with some of our product portfolio and industrial sector so it was a perfect match for benchmarking purposes.

The knowledge gained from this research was significant to the future of the venture for it to be successful. One of the greatest things gained was the process of L.L. Bean's actual model

of growth from a one product business to a full billion dollar a year international organization with a product portfolio of several hundred items. I know this research will help Owl Towels™ to be successful outside of the classroom and into the marketplace, and will help Owl Towels™ to become a staple item of every household.

## **Abstract**

L.L. Bean is a billion dollar a year global firm that manufactures and distributes outdoor recreational goods. Created by one man, Leon Leonwood Bean by selling a better outdoors boot, he expanded his product line, and his target market into the multinational company it is today with a product portfolio of over 400 items. Their operations and distribution processes are one of the most efficient in not only its own industry, but many others and it has been benchmarked by global firms like Xerox. They are primarily a catalog company, but have several flagship stores in the US and a number in foreign countries. They not only serve as a great benchmark firm for both operational and start up techniques for my venture, Owl Towels™, but also as a benchmark firm for quality customer service and website interface. They have won numerous awards for such and will most likely continue to do so. All of these facets are detailed in the thesis below and is concluded by a section on the relevance and insight gained that can be applied towards Owl Towels™ venture development.

## **Entrepreneurship Honors Project**

### **Benchmark Firm Thesis: L. L. Bean**

Written by: Jon Sales

L.L. Bean is a global firm that manufactures and distributes outdoor recreational goods. Much like the athletic towel manufacturing venture that I have been working on during my entrepreneurial studies, this firm's product areas and wide spectrum is parallel with that of our diverse product line. The firm was created as an entrepreneurial venture by only one man, Leon L. Bean, and has grown to over a billion dollars a year multinational corporation. Its catalog order manifesto has changed and expanded over time, but its core competencies and values have remained stable. It is hailed by most industry leaders as a leading benchmark firm for operations and corporate ethos, and serves as a relevant firm to compare to the venture I have worked on. L.L. Bean is a model for sustained growth through a product portfolio approach, that is, having a wide range of products to sell to customers to not only increase sales, but mitigate risks of less prosperous products while reaching a larger consumer base.

Renowned businesses from many other fields (e.g., Xerox) have used L.L. Bean as a benchmark business model to improve upon their own services and efficiencies (Tucker, Zivan, & Camp, 1987). My venture team project is organized around a catalog of innovative towel products and is based on a hybrid model of mostly business to business sales and business to consumer sales through the website. The majority of L.L. Bean's sales are made directly to consumers. However, the company has expanded to direct business sales and has received awards on numerous occasions for their website, such as best catalog website in 2003, 2005, and 2006 from WebAward.com. This firm is a perfect benchmark for our emergent venture given the similarities of our business models. This firm also can provide learning opportunities for

later improvement of our business model, given our limited product portfolio (nine items compared to their four to five hundred).

### **Research Methodology**

The research conducted for this thesis entailed primarily reviewing journal articles, news articles, and direct information from L.L. Bean's own business description. I have used a variety of academic research sources, including Ebscohost, General One File, Lexis-Nexis Academic Universe, Academic Source Complete, ABI/Inform, Business & Company Resource Center, MarketResearch.com, Business Source Complete, and others whom were not as useful in finding pertinent and reliable data. My criteria for determining the article or source's credibility and potential value to my thesis was the currency of the article, the journal the article was published in, the purpose of the article, and its authorship. I focused the majority of my attention on the articles that met these criteria and were published within the past two decades in a scholarly or business journal, and whose purpose was intended for education, evaluation or description. I gave little attention to general opining or information from non-credible sources such as direct competitors.

I also gained significant information directly from L.L. Bean's website about its history, growth, and future. However, I was wary of any information the website presented that may have been biased in favor of their organization. As a result, I attempted to compare their opinions and conclusions to the factual information presented by them or other in other sources. I chronologically organized the data I considered credible (see reference list). The sources I did not directly cite are included in the bibliography.

### **The Creation of L.L. Bean**

L.L. Bean was formed in 1912 by Leon Leonwood Bean as a small catalog company tailoring to outdoor footwear needs in Maine. The year before its formation, Bean came upon a new idea for an outdoor boot that would be more durable and comfortable. He had stumbled upon his idea while on a hunting trip, and identified a market gap specific to hunters, hikers, and other outdoorsmen who would benefit from a quality boot. He gathered a mailing list of “nonresident Maine hunting license holders” and sent them a flyer for the boot which he designed and fashioned with the help of another local (llbean.com). While the concept may not seem innovative today, the market had ample room for this opportunity as demonstrated by his success. He sold 100 pairs of boots but 90 were immediately returned as defective. He replaced all of them for no charge, guaranteeing “100%” customer satisfaction. This core value and product guarantee still inspires the employees and stakeholders in L.L. Bean, creating a legion of devoted customers while increasing Bean’s drive to produce high quality products and deliver the best possible customer service.

To fulfill his promise to customers and develop his business, Bean borrowed money, using it to produce the replacements and send out more catalogs. Advertising was critical to the growth of his business, and he utilized a grassroots approach to marketing, including word-of-mouth, heavy emphasis on growing the mailing list, and devoting “all company profits for advertising” (llbean.com).

The robustness of the opportunity facing Bean at the time he opened his business can be measured against the immense success L.L. Bean has had since its creation. While it has since expanded its product line beyond boots to outdoor equipment, clothing, and other essentials, the boots remain a staple item in the diverse catalog of the business that shares its creator’s name.

### **Bean’s Business Model**

L.L. Bean has been primarily a catalog ordering company. However, it has expanded its operations over the past few decades to serve the many different consumer buying segments including website sales, retail store sales, and direct to business sales. Currently there are 54 catalogs produced that are sent to every state in the U.S. and over 160 countries. The majority of sales come from these catalogs and they have customer service representatives available 24 hours a day every day of the year. There are as “many as 3,100 representatives, who take 80% of the company’s orders over the phone” (fastcompany.com). The flagship store still exists in Maine, with two smaller retail locations opened in the U.S., fifteen in Japan and one to be opened in China in the next few years (packagedfacts.com). Phone or online orders are instantly sent to the distribution center to be processed using one of the most efficient distribution systems in the industry. In fact, the logistics and distribution system are critical success factors and large competitive advantages for L.L. Bean. Built into the large warehouse is a Federal Express station so that the turnaround time for orders is near “100% within 24 hours” (packagedfacts.com). The process is extremely efficient and is a benchmark for firms in almost any industry that does product distribution. As mentioned earlier, Xerox has benchmarked these processes from L.L. Bean to gain efficiencies in their own distribution centers (Tucker, Zivan, & Camp, 1987).

L.L. Bean products are subjected to an “independent test lab for scientific analysis of materials, construction and design”, and thoroughly tested by 1,300 independent field testers(1lbean.com). The company thoroughly involves customer support personnel and customer feedback to update, modify, and produce the highest quality products for the end users. From the employees and Leon Bean’s own accounts, L.L. Bean makes products that they would use and be proud of using.

Overall, L.L. Bean's business model is economical, resourceful, well organized, and one of the best of any firm or retailer. The company offers multiple modes of ordering but has not changed its culture to be a big box retailer, having only a few brick and mortar retail locations. Their logistics and distribution processes are nearly impeccable by any industry standards, turnaround time and time to consumer is extremely low, and customer satisfaction is unparalleled, as evidenced by the numerous awards and frequently returning customers that L.L. Bean receives each year. L.L. Bean's quality control and customer service actualize the values emphasized in its business plan. Further, as a mail-order retailer, they for decades have been, and continue to be, the leader and benchmark firm.

### **Core Competencies**

L.L. Bean has a variety of competencies that distinguish it from the competition. Primarily, its competencies lie in the processing and distribution of their products, customer service, and sale of quality products. As previously described, L.L. Bean has a notably efficient logistical network and distribution center. Its system was created and designed by quality circles, which are employee groups who collaborate to improve the workplace, which were conducted at L.L. Bean and was the first of its kind (Tucker, Zivan, & Camp, 1987). As described by an employee of Xerox who used L.L. Bean as a benchmark firm, he summarized the design as having "...very basic handling techniques, but it was carefully thought out and implemented...although extremely manual in nature, the design minimized the labor content, among other benefits" (Tucker, Zivan, & Camp, 1987).

The main facility is the Order Fulfillment Center (OFC), which took nearly three years of "global benchmarking, environmentally-sensitive design....combining cutting-edge technology and team based work practices" (fastcompany.com). This provides quick turnaround time, and

has given L.L. Bean an edge in terms of delivery time once an order has been placed. In fact, the OFC is able to “store over 10 million units of merchandise and to process an average of 50,000 customer orders a day” (llbean.com). To show how dynamic its system is, in 2007 they “shipped nearly 18 million packages – including over 216,000 on a single day” (llbean.com). Not only is their distribution system fast and accurate, it can handle the various loads of seasonal ordering, especially important for the busy holiday seasons.

Customer service has been the most important thing to Bean, as he understood that the key to keeping a customer was keeping them happy and satisfied. The company has a huge customer service department, nearly 4000 employees, and guarantees all of its products with the pledge that the customer can return the product if he is not “100%” satisfied. While to many the phrase of “100% satisfaction” is more cliché than reality, Bean’s pledge and practice is more like a religious commitment than a business promise. Bean has frequent repeat customers and does so through their knowledgeable customer service representatives, 24 hours a day availability, and dedication to never letting a customer be unsatisfied. L.L. Bean doesn’t just gain customers, it gains devoted followers.

Lastly, what has sustained L.L. Bean for almost a century has been the quality of the company’s products. A business that has the best customer service and distribution capability is still nothing without products that consumers want, and L.L. Bean is no exception. Bean’s product portfolio is huge, spanning nearly two to three hundred pages in length at any given time, and around 20,000 products, and roughly 90% of all those stocked are L.L. Bean tagged items (llbean.com). As described previously, a huge amount of testing and research are done to create and improve every product, so that it best suits the needs and desires of its consumers.

Products are not only tested in the lab for durability and such, but put into the actual environment for testers to use in the field, which results in higher quality products.

### **Market Demographics and Competition**

The company has many competitors, with the largest being Lands' End. Other competitors include, but are not limited to, J.C. Penney, Road Runner Sports, J. Crew, J. Peterman, Recreational Equipment (catalog), and Cabela's. However, L.L. Bean has distinguished itself through its long track record of superb customer service, the 24 hour availability of customer service representatives (unlike many other competitors), quick product turnaround time, and frequent buyer reward programs.

In terms of its customer base, average L.L. Bean customers can be described as "affluent suburbanites" (packagedfacts.com). According to market research done by Packaged Facts on the U.S. market for catalog shopping, the primary demographic for L.L. Bean customers are people (roughly equal for men and women in terms of sales) over the age of 35, with the majority being married, living in the suburbs, who own their own home, and are well educated. This is similar to Lands' End, but the marketing done by both firms is very different. While both emphasize exclusive products in their portfolios they differ in their creation and emphasis. Different messages and product emphasis is present. Lands' End also spends more on overall advertising and catalogs and sells products in Sears rather than standalone stores like those operated by L.L. Bean. However, none of this has stopped L.L. Bean from having a larger amount of sales during the past few years. Last year, Lands' End had roughly \$1.2 billion in sales as compared to L.L. Bean's \$1.6 billion.

While the competition is fierce, both sides are hoping that expansion into newer markets including international ones, and growth through retail locations, will help them gain an edge

over the competition. It will be very interesting to see how these two players compete in the coming years, given the recession and decreased consumer spending for all demographics. While L.L. Bean now has 15 stores in Japan, they are also planning on entering China with a retail store (Reuters). However, given that both sides are increasing profits from e-commerce sales (L.L. Bean was up 14% over 2006), the battle will take place on many fronts.

### **Leon Leonwood Bean**

The culture, motivation, and entrepreneurial drive of L.L. Bean are all derived from the founder whose name represents the business. Started by one man with the help of others, Leon Bean grew the one pair of outdoor boots business into a full-fledged catalog of outdoor clothing, equipment, and other items. His drive, business practice beliefs, and entrepreneurial propensity have made this family owned business into the business titan it is today. The culture and ethos were created from his own beliefs that the customer deserves respect, humane treatment and quality products, which set the standard for generations to come.

With this ethos, it is not surprising that the company continues to win awards every year for customer service, nor is it surprising that they are continually growing in location and product spectrum. L.L. Bean continues to find new ways of reaching potential customers and continuously is working on entering new geographic markets. The models and methods of doing so may have changed with the advent of computer technologies, but the culture and beliefs have been stable throughout all three generations of Bean owners and through to the newest appointed CEO in 2001, Chris McCormick, who is not a family member. While McCormick is not related to the Beans, he emphasizes that the corporate values will remain intact, probably because he had worked his way up the corporate ladder at L.L. Bean for 18 years before becoming CEO.

McCormick's vision for Bean's future focuses on building up the retail and internet channels for sales. He plans to open more retail locations, and to stay ahead of the curve of internet technologies so that the site will not become outdated. He has been extremely successful since his appointment in 2001, expanding the e-commerce side of business with growth every year, and even beating the industry's loss of 2007 with a fiscal profit (llbean.com and Catalog Age). While exact investments and directions he will undertake and expand into in the future are uncertain, he is sure to continue the values and culture that inspired the business founder to create this enterprise.

### **Insight Gained**

While L.L. Bean has been extremely successful, I am extremely curious how they will fair under the direction of Mr. McCormick. I would argue that opening up new retail locations will be critical to L.L. Beans success given that it will diversify their revenue streams. My venture, Owl Towels, can gain insight in the efficient distribution and operations of L.L. Bean, although we could not offer a catalog given our small product portfolio. However, it has given me hope and inspiration that a grassroots, bootstrapped business model of selling towels can be successful by utilizing a similar ethos of having customer satisfaction as being critical to the business. While a better more innovative towel may be a great product, our venture can only be a great success if the public wants our product, comes back for repeat purchases, and recommends us to others.

Owl Towels must keep the customer prioritized first, both in terms of satisfaction and quality. Our towels must be the most functional, helpful, and useful for the intended customers, satisfying their needs, requests and desires. L.L. Bean has done this, selling via catalog and a few retail locations. I feel greater competitive advantage and success will be gained through

multiple revenue channels, including website sales, business to business sales, and retail placement. However, the most important thing L.L. Bean's history has taught me is that Owl Towels must always keep control of the brand image by servicing the customers and providing the best possible products.

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