

Dollars and Change Podcast: How Cotopaxi Integrates Impact in Every Aspect of the Business with Davis Smith, Founder and CEO of Cotopaxi

Davis Smith, Founder and CEO of Cotopaxi, joins host and Vice Dean of the Wharton Social Impact Initiative Katherine Klein to discuss how the outdoor gear brand prioritizes impact in every aspect of the business—the supply chain, charitable giving, employment culture, and more. While many fashion-industry brands focus their impact efforts on the environment, Smith believes there’s “no way to save the planet if you're not saving humanity at the same time” and shares why the brand prioritizes a people-focused mission in addition to its sustainable practices. And what if your business doesn’t have an obvious connection to impact? Smith shares examples of how any business, regardless of industry or size, can “do good”—he’s even transforming a pool table company into an impact company.

Transcript:

Katherine Klein: Welcome to Dollars and Change. I'm Katherine Klein, Vice Dean for Social Impact at Wharton. I'm going to be speaking today with Davis Smith, the CEO and Co-Founder of Cotopaxi. Cotopaxi is a gear brand with a humanitarian mission at its core. Davis is also a Wharton alum. We love talking to our alumni on this show often, so welcome.

Davis Smith: Thanks, Katherine. I appreciate it. This is going to be fun.

Klein: This is going to be fun. So you described what I'd just asked you, “What's the best, most succinct way to describe Cotopaxi?” And you said you're a brand with a humanitarian mission at its core. And I know "Do good" is the creed at Cotopaxi, so I'd love to dig into what doing good means for an outdoor gear brand, a capitalist company. What does "do good" mean for your company?

Smith: Yes, that's a great question. Maybe first I'll start by just saying that this was an evolution and kind of a journey for me, as well, in learning how to do good through business. I had known from the time I was a child that I wanted to use my life to help others. I moved to the Dominican Republic when I was four years old and spent all of my childhood in Latin America, and a lot of my adult life there.

I went to college in the United States as an undergrad, and I met a successful businessman, an entrepreneur, who had dedicated his life to fighting poverty. And he'd started in the Philippines teaching entrepreneurship to people living in extreme poverty. And I wanted to work for him. I thought that's what my life should be, focused on this kind of work. I tried to convince him to let me work for him and to expand his program from the Philippines to Latin America, where I'd grown up.

He, instead, convinced me that I should become an entrepreneur, and that I could use business to find a way to have an impact on the world. And it was really great advice. I'd never really considered entrepreneurship as a career path, but I spent the next ten years building a couple of different businesses. I built a business called pooltables.com, which I did before business school. And then after I graduated from Wharton, I moved down to Brazil and built a business called Baby.com.br.

It was while I was in Brazil that I had the idea for building a brand that was all about giving back. I landed on the outdoor industry. I'm an outdoorsman and love the adventure and travel and the outdoors and nature. And I thought, "It's a very saturated market, but there's a space here to go build a brand that's about giving back, and it's about helping people." It's not just about protecting the environment. I think that's very important, but I think these two things are very interlinked. There's no way to save the planet if you're not saving humanity at the same time.

So I decided to build this brand, but we built impact into every aspect of it and into the very DNA of the brand and business. It's not just on the periphery of the business. It's not an afterthought. It's not just a buy-one, give-one model. It's truly interwoven into everything that we do -- into our supply chain, into our giving, into our culture. Even if you order a backpack or jacket from us on our website or in one of our retail stores, you get a hand-written thank-you card written by a refugee who has been resettled. This is their very first job. They write it in their native language. Some of them are in English. So every little touch point with the brand is an experience where you get to see the impact that we're having.

Klein: That's fantastic, and I know it resonates with your customers. I want to unpack this, but I am intrigued by the refugee piece, that I did not know this. So where are you employing refugees? Are these refugees who've come into the US? Or where are they employed, and in what capacity?

Smith: Yes, so we have a number of different programs we've done over the years, but within the first year of the business, I originally started the business, and I was writing thank-you cards to anyone who ordered from us. And I knew that wasn't scalable, but I thought it was important in those early days. And I got to the point where I wasn't able to do them anymore, and we had the idea of working with refugees in our local community. Salt Lake City has had tens of thousands of refugees settled here over the last twenty years, and I felt there was an opportunity to have an impact there.

So we started working with the IRC, the International Rescue Committee, and we created a job club where refugees who were just brand-new arrived, that were resettling, could join the job club, and our team would volunteer to teach them how to create a resume and how to do a job interview, and they could be placed working for Cotopaxi in their very first job. And they would write thank-you cards. At first they'd do it in our office or in the IRC's office, and then they started being able to do it at home. They could actually make pretty good money, and probably two-thirds or three-quarters of the refugees that do it are women, so they're able to do it when their children are in school, or in the evenings. So they're able to make this supplemental income for their families and start to get some work experience on their resume.

And so we've had over 200 refugees who have participated in this program over the years, and it's just one of the things I'm most proud of. It's really a special opportunity for us to get to know these amazing refugees and help them get their lives started. We've developed some really special relationships with them over the years.

Klein: Yes, that's very cool. So digging into your model and the way in which "do good" is manifested in all aspects of the company, I thought we could break this down into products, employment and culture, supply chain, and philanthropy. So let's start with products. You focus a lot on creating sustainably designed outdoor products. In a day in which we worry about companies engaged in greenwashing and certain other big words, what does that actually mean if I'm buying a backpack, if I'm buying a parka, a jacket, a fleece from Cotopaxi?

Smith: Yes, I will first say there are a number of different ways that we have impact through the supply chain, and every place that we work is a little bit different. We don't have a cookie-cutter answer where it's like, "Okay, every factory we work with, we're going to make them do this, or we're going to have this happen." We really go and assess every partner and see how we can help.

And so we have some factories that are fair trade factories that really do a great job already in a lot of ways. But we see where we can have further impact and where we can help them do better. We have other factories that are not fair trade-certified but that have a history of treating employees really well. For example, our pack factory is in the Philippines. Their average sewer has been there for 11-1/2 years. It's a place that pays well. They have volleyball and basketball clubs, and it's just a really fun place to work.

At the same time, when we were there, we saw two big problems. There was a lot of waste material that was left over from the manufacturing, cutting, and sewing process, from our brand and from many other outdoor brands that use the same factory. The second problem we saw was that a lot of these factory workers -- they're incredible artisans and craftsmen, these sewers -- and they never had the ability and the power to choose what they wanted to sew or design on a product on their own. They were just simply told by people like us what to sew.

And so we wanted to change that, so we went to them, and we said, "Hey, we want to use all this remnant material that's left over from other brands, and we want to empower you to sew the bags and to create. And so the only rule we're going to give you is to make no bag alike. You can use any colors you want, any materials you want." And this has kind of become the iconic Cotopaxi bag. It has really funky colors and color-blocking. This line of bags, which is a huge part of our product line, is made of remnant materials. And so it's got this great environmental story and this great story of empowering sewers to be able to use their creative voice.

We have another factory in China which we're really proud of. We have a community garden that we've built there, where the factory workers can take those vegetables and fruits home. They don't live at the factory, unlike a lot of the factories in China. That was by design. The owner of the factory, who we just absolutely loved, worked for another outdoor brand in one of these

factories where everyone lived at the factory. And he decided at some point -- he had his own child, and he was like, "This is horrible. These people don't see their children until Chinese New Year." They see their children like two or three weeks of the year.

And so he decided he wanted to build a factory in one of these communities where a lot of these sewers were coming from. And so they live at home, and they come to work. One of the unique things about it was that one of the challenges was transportation. How do you get all these factory workers to the factory every day, and then home every day? Normally that wasn't something you had to deal with, if everyone just lived at the factory. And a lot of these people are not necessarily middle class or rising middle class yet, and so they didn't have their own vehicles. But he made a deal with these sewers where, if they were willing to go pick up seven other co-workers in this community before they came to work, and if they dropped them off, he would give them a stipend which allowed them to buy a little minivan. And so you go to this factory, and there's like a parking lot full of these little minivans.

I have this really fun picture of all of these sewers holding up the keys of their cars, and they are so proud. They have their own cars. And so it's really fun to see the impact that you can have through business by just thinking a little bit differently.

Klein: When you describe these factories in your supply chain, I'm curious whether these factories are only serving Cotopaxi, or are they serving other brands? And how does that shape the kind of influence you can have on factories, the way the factories operate?

Smith: Yes, they do serve other brands. None of our factories work exclusively with us. And I think that's pretty common among any -- really any consumer brand. But what we found is that we can have influence, even if other brands are not choosing to invest in certain areas. For example, that community garden -- you know, it didn't cost that much money to go put that together. And we were able to go make a small impact. And so we're able to go into a factory line and say, "Hey, this is what we want it to look like. This is how we want the employees to be treated. And these are some areas where we see some opportunity for improvement." I think everyone benefits from that, as well, not just us. So I think that's important, as well. It's not just about us doing things right. It's about trying to move the entire industry forward in a better way.

Klein: Right. And the world of fast fashion is terrible for the environment, yet you are a company that is building outdoor gear, including clothing. How do you build sustainability and combat the kinds of concerns that many of us know exist in the fashion industry?

Smith: Yes, this was honestly really eye-opening for me as I got into the space. This wasn't an industry -- you know, apparel and bags -- that I was really that familiar with. I understood e-commerce and consumer products, but not quite in this space. And so as I started the business, I had to learn a lot about it. And this is one of the areas where I felt we could do a lot better than what was being done.

Although our mission is really people-focused and humanitarian and poverty-focused, versus environmentally focused, the reason I chose that is that I really felt that protecting the

environment is just table stakes. That's not a competitive advantage. That's something that we all have to do. And so 94% of our products last year were made of remnants, recycled, or responsibly made material. A huge percentage of that is remnants.

And that was our very first product. Our first bag was made of remnant material. This is something we've been doing since we started in 2014. We knew we needed to think differently. The idea of creating virgin polyesters and everything all the time, and all the dyeing processes are very damaging to the environment. And so our footprint, our carbon footprint and our footprint that's negatively impacting the environment is very, very low compared to any brand our size. And we're going to continue to push the envelope. With our designers, we're constantly thinking about how we can design and think differently about how we make product.

Are we perfect? Of course not. We're not, but I think we're doing things in a way that many have never done before, and we're hoping that we can help continue to lead the way in thinking about how we do capitalism differently. We have to do better because we are destroying our planet. And we're leaving people behind in this rat-race of trying to create more profit. And that shouldn't be what business is about.

Klein: So you've described some of the ways doing good shows up in your products and in your supply chain. What about your employment and your culture? I know you're an attractive employer. If I invite you to brag about what's different and special about working for Cotopaxi, what would you tell?

Smith: From the beginning of the business, we knew that we had to build a great culture. You do that by having very clearly defined values. And we did that before we sold a single product. We knew what our values were. We built rituals and traditions around those values that really reinforced them.

Klein: You know, of course, that a lot of the company values feel like they're a dime a dozen. So [UNINTEL OVERTALK] your values, and how do you get around that?

Smith: I think one of the big reasons why they feel that way is because oftentimes it's some words on a wall, but when it comes down to it, it's like -- do people actually feel like that's how you live? Has that shaped behaviors and outcomes? For us, we defined those values. And this is something I didn't do in my first two businesses. I didn't do this well, and I understood that I needed to do it better.

And so with Cotopaxi, again, before we sold a single product, we got together with our founding team, and we went through an exercise of identifying the values that we stood for. And we wanted to build these rituals and traditions that shaped our culture and shaped our brand in a really intentional way. And so our core values are people, adventure, and innovation. We've built some really fun traditions around those things. We have a committee that's led by our employees that's around social impact. Every month we do volunteering together. We have something called "10% in the wild time," where you can spend 10% of your work week volunteering or out in the

wild. So if it's a powder day, and we're living in Utah, you can go skiing. But a lot of our team uses that time each week to go volunteer, including me.

So we've really tried to build these really strong traditions around our business. You know, with COVID, everything changed. A lot of those rituals and traditions had to be re-thought. We started doing virtual hiking, where at a certain hour of the week, everyone would dial into a Zoom call, wherever you were at, and everyone would go for a walk around a park or around their block or maybe on a little trail near their home. And we found ways to continue to live those values, even during that challenging time.

Klein: And what about your philanthropy? How does this work? You have a Cotopaxi Foundation. Explain how you fund the foundation and how you make decisions about where the foundation gives.

Smith: Yes, we started the business without a foundation but with giving as part of the business model. But a few years into the business, we saw that there was an opportunity to have a greater impact because we had so many employees and other companies and customers who were saying, "Hey, I'd love to donate myself to this cause that you're working on." But you know, we didn't really have a mechanism to accept customer donations, for example, if someone said, "Hey, could I donate an extra \$5 or \$10 to support this cause of fighting poverty?" There was no way for us to do it.

And so by creating a foundation, it allowed us to accept donations. This last month alone, we had \$7,500 donated from customers. These are small donations, \$5 and \$10 donations to support Afghan refugees. And we're going to extend that into October, and Cotopaxi is matching those donations, and then giving some on top of that, as well. Before we had the foundation, that wasn't really something that we could do. But the foundation is mostly funded by us. We contributed a minimum of 1% of revenues. In the early days of the business, the first five or so years of the business, that meant all of our profits and more.

So it was a big sacrifice. It was a big commitment. It was something that we had to commit to our board, but it made sense. But last year, as our business kind of crossed into profitability the last few years, we saw an opportunity for us to do more good. Last year we gave almost 3% of revenue. So for us, it's not about giving the minimum and making a commitment, and then kind of giving that. It's finding how do we give the most we can possibly give? How do we have the greatest impact possible? And if we have a better year, maybe that's an opportunity for us to do more.

Klein: That's great. So speaking of these things, the last year, opportunities to give more -- how has COVID affected your business? Obviously it has been an incredibly difficult time for many businesses, and it has required a lot of pivoting.

Smith: Yes, and I guess we're not alone. We certainly had a lot of headwinds, especially in the early days of the pandemic, those first few months. Our hero product is a travel bag, so with no one traveling, that obviously took a big, big hit. Our retail stores were closed. We had our retail

partners like REI and hundreds of other retailers that were all closed for a number of months. A decent part of our business is also corporate products, so a company like Google or Adobe might say, "Hey, we want to make a bunch of bags or jackets for our team for an upcoming event." Those all got cancelled.

So about 50% of our revenue disappeared overnight, and there was a time when we could either be fear-focused or strategy-focused, and we made a decision to stick to our strategy. We actually made a shirt that raised money for COVID response, and we donated 100% of those gains to COVID response. We started making face masks, where for every mask that we sold, we donated a mask to a community in need somewhere in the developing world generally. And so we ended up selling around a million masks.

So through that pivoting, and through thinking differently about how we could have an impact, the business was able to respond in a unique way. And we had a lot of people who chose to support our brand because of the way that we responded. Instead of just focusing on ourselves, we really focused on our community and how we could help others. It was an interesting year for sure. We saw 35% growth in 2020. It's our slowest growth year to date, but all things considered, we were very, very pleased with how it turned out. It could have been much, much different.

Klein: Yes, and what do you think stays going forward? This is still an uncertain time, obviously, in terms of how far we have come in this country, and managing COVID remains uncertain. But what do you see sticking as lessons learned from COVID?

Smith: You know, I think there are a lot of things. I'd say specifically for me and for Cotopaxi, we shifted to a remote first workforce. I was actually the biggest believer in working from the office. I never worked from home, even once before the pandemic. I believed in being in the office. I felt we needed that if we wanted to build a great culture and great traditions as a team. And we were very close to each other, and that was an important part of our business.

We'd see 500 to 1,000 applicants per job opening, and I felt it was because we'd built this really great culture. But when the pandemic began, we all started working from home, and what I saw was that actually we were more efficient, our team was more efficient. We had to be really creative around how to create this connectivity. And we've done all these really fun things, both virtually and now starting in person, as well. We had a Cotopaxi summer camp a few months ago, where we brought everyone in from around the country, and we did all these really fun outdoor activities for a few days. It was kind of reminiscent of summer camp as a kid.

We have all these new traditions that we've created, but what's going to stay is that we started hiring our team all over the country, instead of just people willing to move to Utah. And so we have a more diverse team. We find all these really great benefits. I get to see my kids more often, as a dad. And when I take a quick break, I'm running into them. When I have lunch, I can have lunch with my little kids or with my wife. So these are really fun things. This is a gift. It really was. This transformed the way that I, at least, thought things had to be done. And I thought things had to be done in a certain way, and it turns out that wasn't true. So it was a really interesting last couple of years, for sure.

Klein: So this past month, early in September, it was announced that Bain Capital Double Impact has invested \$45 million into Cotopaxi's growth. So obviously that's a very big deal, a large impact investment from this fund. I'd love to hear a little bit about what this means to you and where Cotopaxi is going, and also a little bit about how an investment like this occurs. We're pulling back the curtains to understand a little bit more about the process that culminates in the announcement of an investment like this.

Smith: Obviously it's a very exciting time for us as a brand. I think what makes me most excited is proving that doing good and doing well are not mutually exclusive. When I was fund-raising for this business, I hadn't sold anything yet, but I had a PowerPoint and a big vision of what I wanted to build. I pitched a hundred different investors, of VCs, impact investors, angel investors, and I got a lot of nos.

A lot of them questioned whether a business could give away money before it ever made money and be sustainable. And what we've shown is that yes, it can. It can be done. And so we're very proud of that. This investor specifically is one we're very excited about. We got to know them about five years ago. They launched this new fund, Bain Capital did, called Double Impact. And a bunch of partners and other people from Bain Capital opted in to go start this fund and be a part of it. They were all passionate about social impact and wanted to prove that things could --

You don't have to compromise on return, either. It's not like the bar is lower for this fund. They expect to return the fund just as well as all these other funds, but they wanted to focus on brands that are doing good in the world and businesses that are thinking differently about capitalism.

And so we heard about them, and one of our board members, Ellie Wheeler, had gone to business school with one of the people there, so we got connected, and that person's name is Jacob Donnelly. He actually flew out to Salt Lake to meet us, and he said, "Hey, can we go backpacking together?" And we were like, "Oh, yeah! That's right up our alley. We totally love that."

So it turns out he'd never even been backpacking before. We thought maybe he was an outdoorsman, but he was like, "No, I've never really done this." But my co-founder Stephan and I -- we met at business school at Wharton -- and we went and slept in a three-person tent with this guy. I'm 6'3" -- like all three of us are kind of big, and we all slept in this tent shoulder-to-shoulder and built a really fun relationship.

Over the years, we continued to stay in touch, and frankly we got rejected a lot by them, too. They continued to say, "We really love the brand, but it's just not quite to the size where it makes sense for us to invest yet." And over the years, we continued to scale and continued to stay in touch and build that relationship. And this year, we got to the point where it felt like it might make sense to approach someone like them to help us go to the next stage of growth. And as they dove into the business, they said, "This is exactly what we're looking for. Let's do it." So it was an exciting moment for us, for sure.

Klein: That's great. Thank you. And then we have so many topics we could discuss. We probably only have time for one more, but you've just done this fascinating thing where you personally have acquired Spencer Marsden, this company that you founded and sold years ago to pooltables.com. So pool tables' impact -- you sold the company, you're buying it again. Explain this.

Smith: Yes, it's kind of a random thing. The business itself is kind of random -- pool tables. Our brand Spencer Marsden was one that my cousin and I started. My middle name is Marsden, and my cousin's middle name is Spencer, and so when we were right out of college, we started this brand of our own and started selling online and into retail stores around the country. It was a really great experience, you know, building a business together. And we learned a lot of lessons. We sold the business when I was in business school, and we kind of moved on.

And I still owned a little bit of equity in the business, and so over the last decade -- more than a decade since I sold it -- I just kind of kept up with what's going on. And the gentleman who bought it from us, he owns 17 different businesses, and he reached out and said, "Hey, Davis, I just want to give you a heads up. We're going to be selling the business. I've got a buyer. He's going to buy it."

And I thought, "Well, that's great." It was a publicly traded company that was going to be buying the business, and that's a great win for him. But the more I started thinking about it, the more I thought, "Man, I don't know if I can let that happen. I know this business so well, and I know the opportunity that we have to go do something really special." And at the time, I had such a desire to make an impact through business, but I didn't know how to do it. All of our passwords were tied to social impact with that business, even though the business had no social impact at all.

But it was in my head. I just didn't know how to do it. I didn't know how to go too big with the business. And I know how to do it now. So I thought, "You know, I'm going to go buy that business back. I'm going to convert it to a benefit corporation, and I'm going to go use that business to fight poverty and to go create a more sustainable brand in business in this really kind of mature industry that's maybe not that sexy or exciting. So yes, I'm very excited.

It's a small business. It's \$13 million in revenue, and it's about a million-and-a-half dollars in EBITDA, but it has been profitable for 17 straight years. And it just felt like an opportunity to go do something really special and a fun, new challenge. So yes, I bought it, and I hired a CEO who started a few weeks ago. And I think he's going to do a great job, and I'm just really thrilled about the opportunity to go try to make a difference with another business.

Klein: So how will this company make a difference? If you said to me, "Katherine, we're selling pool tables, and we're going to have a positive impact," I'd be puzzled. So how are you going to do that?

Smith: Katherine, this is the beauty of it. If I can do good with billiards, you can do good with any business. So that's what we're out to prove. It doesn't matter what industry you're in, how big or small the business is, you can make an impact. And so for us, we're going to be using our

profits to support poverty alleviation. We're going to specifically be focusing on the nonprofit that was started by that mentor of mine that I mentioned earlier who was teaching entrepreneurship in the Philippines, and then he expanded to Latin America. He has taught tens of thousands of people living in poverty how to create their own businesses, and we're going to be supporting that.

We're also going to be focusing on sustainability. So if you buy a pool table, you can know where that wood came from. Like right now, I have no idea. And I guarantee if you go to a furniture store or a billiard retailer, and you say, "Hey, where did this wood come from?" They have no idea. We're going to make it traceable. We want to trace back where the wood came from, and make sure that it was harvested sustainably, that we weren't chopping down a rainforest to plant palms for palm oil, or that we're killing orangutans or whatever.

There's a way that we could do this better, and no one in the billiard industry is thinking this way. And so it's going to be a fun challenge for us.

Klein: Great. Davis, thank you so much. It's been fantastic to talk with you, and it's really exciting where you've come and where you're going with Cotopaxi. So it's a pleasure to talk to you. Thank you.

Smith: Thanks, Katherine. I really appreciate it.

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