<u>Everlane and the Theories of Diffusion of Innovation and Uncertainty Reduction</u>

"Made in China." "Made in Mexico." "Made in the United States." Beyond fulfilling mere labeling requirements, these phrases can be strategic advertising and communication techniques designed to tout countries of origin and provide consumers with information about where their goods are made. Knowing where a product is made is usually one of the only concrete data points consumers will have about what they buy, particularly since a majority of people purchase items without questioning the cost of manufacturing or if the sale cost is actually reasonable. Why is one t-shirt priced at $75 while another is priced at $5? The fashion and clothing industry has all too often been cloaked in mystery – until now.

<u>Everlane</u>

Everlane, an online-only clothing retailer, has made "radical transparency" it its mission. Founded in 2010, the California-based company distinguishes itself from the crowded fashion marketplace by creating and selling high quality, basic clothing while giving customers an inside look into pricing structures and factory production and procurement. The company openly encourages its consumers to, "Know your factories. Know your costs. Always ask why."[1]

In keeping with the first clause of their statement, "Know your factories," the company's website boasts a section dedicated to informing their consumers about the company's contracted factories. Each factory Everlane works with has an "about" section on the company's website where customers can learn about the location of the factory, how Everlane found it, the materials the factory uses to make the products, and information about the owner. Additionally, each factory page features an inside look at the factory through pictures (as seen above). Giving customers a

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[1] (Everlane, 2016)

look inside the factories in which their clothing is made is unprecedented and only serves to emphasize the company's commitment to transparency.

The "Know your costs" ethos guides the unique way the company shares pricing information. Everlane provides transparent pricing for their customers through cost breakdowns of the materials, hardware (if applicable), labor, duties, and transport required to make an item. Through this breakdown, customers are able to see the "true cost" of what they are buying and gain insight into Everlane's profit margins on each product. By sharing the company's pricing structure, Everlane is able to empower their customer to make informed decisions that they can feel good about.

Everlane owes much of its success to its "radical transparency" mission. In the information age, accessing information about products and services we buy has become easier than ever. With new technologies for communicating and engaging the public with information, customers have the ability to "Always ask why" when making purchasing decisions. This thirst for information about products has given rise to new business strategies, one of which is aptly named, transparency strategy. In an article written on the effectiveness of transparency strategy, the authors suggest,

> If a firm is truly interested in releasing information to an external
> party, it will not just be the information available, but it will also
> design the search mechanism such that the receiver can sort through
> the data and extract the information necessary.[2]

Everlane has mastered the release and organization of pricing and factory information beautifully. The company is dedicated to its product and even more dedicated to the notion of "radical transparency." This transparency has garnered Everlane a large and loyal customer base, which is driving the company's continued growth.

Diffusion of Innovation

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[2] (Granados, Gupta, & Kauffman, 2010)

Diffusion of Innovation Theory (DIT) was developed in 1962 by communications scholar Everett Rogers. Rogers's theory attempts to explain how an idea or product (innovation) spreads (diffuses) over time. The four main elements of his theory are the innovation itself, the channels in which the innovation is communicated, the time in which the innovation is spread, and the members of a social system to which the innovation is spread. Within social systems each member is identified as either an innovator, early adopter, part of the early majority, part of the late majority, or a laggard.[3] There is no doubt that Rogers would identify Everlane and the way they run their business as innovative. A heading on Everlane's website reads, "They say you should start a business that you wish already existed, so we quit our day jobs."[4] By creating a business that shares pricing structures and factory information with its customers, Everlane broke with established industry norms and secured a large customer base of early adopters and members of an emerging majority.

Rogers further suggests that members within a social system accept an innovation by following five main steps: knowledge, persuasion, decision, implementation, and confirmation. By evaluating Everlane's business model through this lens, we can see how its "radical transparency" strategy has begun to catch on within the fashion industry as well as across other industries.

Knowledge

Through its existence, Everlane places itself in a sphere of speculation and observation. Because of the company's unique approach to business, it has gained

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[3] (Srivastava & Moreland, 2012)
[4] (Everlane, 2016)

attention from other companies looking to find out more about the brand and its success.

Persuasion

Once a company is aware of Everlane and its success, it will begin to look for more details and information about how and why "radical transparency" has led to the success of the business. If Everlane's transparency strategy is successful for the company, then perhaps other companies will benefit from the implementation of similar strategies and missions.

Decision

In this phase, it is up to the company to decide whether to accept or reject their competitor's innovation as something it would like to employ within their business. In this case, a company or organization would decide if they think that transparency would positively affect their business.

Implementation

If the company decides to accept the innovation, they will begin to employ it in their brand. In a 2016 Forbes article about Everlane, the author discusses brands that have implemented transparency as a strategy to grow business and develop better relationships with their clients. One particularly surprising adopter is McDonalds, which has used transparency to do this. The author states, "But every trend has a bandwagon, and plenty of companies get on board because consumers are paying attention."[5] The author's use of the word "bandwagon" implies that a growing number of companies have already begun to adopt attitudes valuing

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[5] (O'Toole, 2016)

openness and transparency, and by claiming that McDonald's is on the bandwagon, the author implies that they are most likely part of the late or early majority to implement the innovation. Such prominent coverage in business media like Forbes indicate that Everlane's idea of transparency is catching on.

Confirmation

In this step, organizations finalize whether or not they will continue to use the innovation. In McDonald's case, I am not sure if they have continued their transparency strategy, but many businesses in the fashion industry have found openness with their customers to be extremely successful (ex. Patagonia, Warby Parker, B.good)[6].

The concept of Diffusion Innovation continues to promote research about how it can be applied in different contexts. A paper written by Reina Arakji and Karl Lang explored innovative business practices and how they spread across organizations and promote industry-level change. In their paper, the authors condense the five stages of Rogers's DIT into three different phases: origination, adoption, and retention.[7] As mentioned above, many organizations have started to emphasize transparency, but Everlane is also known for its innovative pricing transparency. Arakji and Lange discuss the origination phase when they state, "The evolution of a new practice begins with its invention by a single organization and an initial implementation that bestows a certain competence to that organization."[8] Everlane has established a new industry standard for pricing transparency. It is hard to imagine every fashion brand adopting this pricing structure, but lack of large-scale adoption does not mean there has been no diffusion of innovation. It has been

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[6] (O'Toole, 2016)
[7] (Lang & Arakji, 2010)
[8] (Lang & Arakji, 2010)

suggested that, "…some items may be widely adopted, whereas others could be adopted by a limited number of individuals. In other terms, the diffusion of an item can achieve different level of success."[9] As Everlane continues to grow in success it will be interesting to see how many organizations will be persuaded by their success to begin adopting similar business models.

Uncertainty Reduction Theory

Uncertainty Reduction Theory (URT) was developed to help explain why strangers use certain ritualistic ways of getting to know each other when they meet.[10] The theory posits that when strangers meet each person will attempt to reduce his or her uncertainty about the other person by asking questions and disclosing personal information. Much of the information that is shared at first is trivial background knowledge, but it can provide enough information for someone to make assumptions and value judgments about their counterpart. People go through three different strategies when reducing uncertainty: passive, active, and interactive. When someone uses a passive strategy, he or she simply observes the unknown person. Someone who employs an active strategy will gather information about the other person from third parties. If someone chooses to use an interactive strategy he or she will ask questions directly to the unknown person and share personal information expecting the action to be reciprocated.[11]

Though URT was developed for understanding interactions between people, its applications to Everlane and their clients is worthy of note. Everlane's "radical transparency" innovation provides consumers with a wide depth of knowledge about their factories and how they choose to price their products. By opening up to each of their customers this way, they are in a sense disclosing very personal information in hopes that their customers will be attracted to them

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[9] (Mehmood, Barbieri, & Bonchi, 2016)
[10] (Berger & Berger, 2009)
[11] (Berger & Berger, 2009)

and accept them as a place to purchase clothing. In a study conducted in the Netherlands, researchers explored the ways in which social networking sites help people get acquainted with one another.[12] They found that on social networking sites people made use of all three uncertainty reduction strategies, but the most popular strategy was passive, followed by interactive and then active.

In order to apply URT to Everlane's acquisition of new customers, Everlane must be considered a person. Of course in this case, Everlane (the person) is not worried about reducing its own uncertainty when acquiring a new customer, but is rather more concerned about reducing the new customer's uncertainty about Everlane. Because Everlane does not spend money on advertising, it relies on social networking sites to spread brand awareness and let customers know more about them. A potential new consumer can go to their website, Twitter, Instagram, or Facebook page and immediately engage Everlane via passive uncertainty reduction strategy. There is a wealth of information made available by the company for the sole purpose of making the customer comfortable with their brand. In an interview, Everlane founder Michael Preysman stated:

> "I think it's super important to have a differentiating point of view. But we didn't have this notion of "radical transparency" straight out of the gate. It emerged from helping customers understand who we were and why we were doing things in a certain way."[13]

"Radical transparency" is Everlane's way of disclosing information and reducing any uncertainty a potential customer might have about their brand. Reducing uncertainly helps create a strong relationship between both parties and, in Everlane's case, helps solidify a consumer base that knows exactly what they are paying for and where it came from.

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[12] (Antheunis, Valkenburg, & Peter, 2010)
[13] (Kansara, 2016)

Not only does Everlane share pertinent company information with their buyers, it also makes the buyers part of the production process. They take customer feedback seriously and use it to iterate and improve their products. This provides Everlane with another feedback mechanism for communicating and reducing uncertainty amongst its buyers. In an article about uncertainty reduction in service encounters, William Smith states, "The service provider presents to the public, through advertising, signage, and public relations, abundant information regarding services offered. Nevertheless, uncertainty still exists each time a customer approaches as to whether *the service offered is indeed what the customer seeks*."[14] By knowing that Everlane is constantly iterating their products to fit clients' needs, clients can rest-assured knowing that what they are getting is the best possible product. Everlane's customers are not just buying from a one-direction supplier, they are building a relationship where they are empowered to inform the business' products and are encouraged to communicate with the company itself. Likewise, Everlane's transparency gives the customer even more information about the product to ensure the customer gets what they expect every time. Additionally, other companies' lack of uncertainty reduction techniques may work as a comparative advantage for Everlane. Beacuase consumers know what they are getting with an Everlane product, their relative uncertainty about products from other companies may drive them to purchase more from Everlane.

<u>Improvements in Practice</u>

It is clear that Everlane makes use of both Diffusion of Innovation Theory and Uncertainty Reduction Theory. Whether or not the company deliberately applied each of these theories to their brand, it has become a real-world example of the potential benefits for both. If Everlane were made aware of each theory and how their company benefits from them, I believe

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[14] (Smith, 1996)

they could further leverage their brand's innovation. Everlane clearly knows that their "radial transparency" is innovative, as evidenced by their very use of the word "radical." By truly understanding and examining the Diffusion of Innovation Theory they may be able to persuade others in the industry to follow suit in fixing the fashion industry's tendency toward opaque business practices and pricing. They certainly have a handle on providing pertinent information to help put their customers at ease. An increased understanding of both theories would help to strengthen the already strong company.

Possible Shortcomings

Though both theories discussed are helpful in understanding Everlane's success, they have limitations. As previously mentioned, innovations can be restricted in how much they diffuse into society. If Everlane's goal is to fix the fashion industry it has a lot of work to do, because it is improbable that an idea that "radical" can become conventional. It is unclear how much market change is a goal of Everlane's. It is possible that the company is content with creating their niche market and simply focusing on its customers, which would mean limited diffusion may be sufficient for them.

As Everlane becomes known for its transparency it is likely to face some criticism from skeptics. If uncertainty reduction is something on which they base their business model, they will have to decide how much information to divulge as people become more comfortable in asking more in-depth questions. Because uncertainty reduction theory was developed to explain person-to-person interaction, it does not accurately account for a relationship in which one party is the only one required to divulge information. Everlane will have to figure out how much information they want to share while still maintaining a level of comfort with their consumers.

Conclusion

      The development and implementation of "radical transparency" has become paramount to the way Everlane conducts its business. In essence, Everlane's brand is transparency. Everlane's transparency innovation has reduced their customers' uncertainty about their products and the company as a whole, and cemented their position as a leader in the competitive fashion market. Applying Diffusion of Innovation Theory and Uncertainty Reduction Theory provides a critical understanding for the reasons behind the company's success in an industry that is usually shrouded in mystery.

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