Victoria’s Little Secret
MICCSR Milgard Invitational Case Competition on Social Responsibility, 2012
PYRAMID CONSULTING:
DANIEL CLARKE, NATHAN PROHASKA, KEVIN WILSON, ELAYNA ZAMMARELLI
1. Introduction & Overview of Issue
2. Current Market Performance of Limited Brands
3. Review of Fair Trade Products
4. Internal Audit System for Limited Brands
Agenda

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Any proposed solution must address the following:

- No child or forced labor shall be used
- Value of Fair Trade brand recognition
- Failure to uphold Fair Trade labor standards
- Bring current farmers to compliance
- Limited Brands must mitigate the risk of future problems with labor and product sourcing
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Strong Market Performance:
Evaluation of Market Response
Little Impact of Story on Sales Performance: Quarter 4 sales

<table>
<thead>
<tr>
<th>Quarter 4 2010</th>
<th>Quarter 4 2011</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.39 bn</td>
<td>$1.57 bn</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

- Despite dip in share prices, sales were seemingly unaffected by story.
- Between Quarter 4, 2010 and Quarter 4, 2011 there was a 12.9% increase in sales for Victoria’s Secret.
- Sales figures for Quarter 1, 2012 are currently not publically available.
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Improved Brand Equity through Partnerships: Limited Brands & Fair Trade

Although the Fair Trade label has not lived up to its own standards, it still represents a significant market advantage in terms of product branding.

Benefits

- In line with company values
- Productive benefit system
- Transparency in company actions
- Acts as one more system to monitor material and product sourcing
- Mitigates direct company responsibility
- Sales of Fair Trade products rose 75% in 2011
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### Improvement Of Current Audit System: Moving Forward

<table>
<thead>
<tr>
<th>Current Audit System</th>
<th>Proposed system</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Current system is ineffective</td>
<td>▪ Audit system designed to cover all of Limited Brand’s businesses</td>
</tr>
<tr>
<td>▪ Very little public information available about measures taken to prevent child and forced labor</td>
<td>▪ Follows IKEA model for product and material supply chain</td>
</tr>
<tr>
<td>▪ Has failed to live up to company values</td>
<td>▪ Internal review system designed to prevent future problems</td>
</tr>
<tr>
<td></td>
<td>▪ Works in conjunction with Fair Trade and third party monitoring groups to ensure ethical product sourcing</td>
</tr>
</tbody>
</table>
A Model For Success: IKEA’s IWAY Standard

Key Principles of IWAY

Signed document from supplier accepting IWAY Principles
- Provide written terms of employment and compensation

Abide by UN Convention on the Rights of the Child
- Define “child”
- Proof of date of birth

Keep IKEA informed at all times about production or operations
- Perform internal audit at least once every 12 months

Stakeholder Impacts

**Shareholders**: minimally affected

**Consumers**: fair trade certification remains reputable

**Suppliers**: short term increase in cost, long term – strong business relationship

**Community**: continually support small farmers in Africa

**Environment**: increase market for organic cotton

**Creates Shared Value**: company and workers see benefit from the program
Luck Favors The Prepared: Internal Audit System

Benefits

- **Brand Equity**: Restablishing the use of Fair Trade products while independently verifying material sourcing builds brand equity.
- **Cost**: Similar programs have been implemented at relatively low cost with high benefits.
- **Limited Brands’ Values**: An Internal Audit System helps ensure compliance with Limited Brands’ labor guidelines.
- **Risk Prevention**: An Internal Audit System helps avoid potential negative press through preventative measures, rather than having to address the issue after the fact.
IKEA’s Success

August 2002 – August 2003
9 cases out of 1500 suppliers identified

August 2003 – August 2004
2 more cases in India and 11 in China

Fiscal 2004
Terminated 10 supplier relationships due to violation of IWAY Standards
<table>
<thead>
<tr>
<th>IWAY Fulfillment by IKEA Trading Audits</th>
<th>Europe</th>
<th>Asia</th>
<th>Americas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Legal compliance</td>
<td>96%</td>
<td>77%</td>
<td>96%</td>
</tr>
<tr>
<td>2. Emissions</td>
<td>96%</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>3. Ground contamination</td>
<td>97%</td>
<td>79%</td>
<td>99%</td>
</tr>
<tr>
<td>4. Chemicals</td>
<td>93%</td>
<td>64%</td>
<td>90%</td>
</tr>
<tr>
<td>5. Waste, hazardous waste</td>
<td>93%</td>
<td>63%</td>
<td>90%</td>
</tr>
<tr>
<td>6. Environmental improvement</td>
<td>94%</td>
<td>73%</td>
<td>90%</td>
</tr>
<tr>
<td>7. Fire prevention</td>
<td>92%</td>
<td>72%</td>
<td>94%</td>
</tr>
<tr>
<td>8. Workers’ safety</td>
<td>97%</td>
<td>79%</td>
<td>96%</td>
</tr>
<tr>
<td>9. Dormitories</td>
<td>NA</td>
<td>80%</td>
<td>100%</td>
</tr>
<tr>
<td>10. Wages, overtime</td>
<td>100%</td>
<td>69%</td>
<td>99%</td>
</tr>
<tr>
<td>11. Child labor</td>
<td>98%</td>
<td>84%</td>
<td>99%</td>
</tr>
<tr>
<td>12. Forced &amp; bonded labor</td>
<td>100%</td>
<td>94%</td>
<td>100%</td>
</tr>
<tr>
<td>13. Discrimination</td>
<td>100%</td>
<td>92%</td>
<td>100%</td>
</tr>
<tr>
<td>14. Freedom of association and collective bargaining</td>
<td>100%</td>
<td>42%</td>
<td>100%</td>
</tr>
<tr>
<td>15. Harassment</td>
<td>99%</td>
<td>84%</td>
<td>100%</td>
</tr>
<tr>
<td>16. Forestry, Routines for procurement of wood</td>
<td>98%</td>
<td>82%</td>
<td>98%</td>
</tr>
<tr>
<td>17. Forestry, Protected areas, intact natural forest and high conservation value forests</td>
<td>100%</td>
<td>61%</td>
<td>100%</td>
</tr>
<tr>
<td>18. Forestry, Plantations in the tropical and subtropical region</td>
<td>100%</td>
<td>83%</td>
<td>100%</td>
</tr>
<tr>
<td>19. Forestry, High value tropical tree species</td>
<td>100%</td>
<td>88%</td>
<td>100%</td>
</tr>
<tr>
<td>Average total</td>
<td>96%</td>
<td>75%</td>
<td>96%</td>
</tr>
</tbody>
</table>
Limited Brands-Fair Trade Alliance

- Consumer Trusted Label
- Productive Investment Program
- Directly Benefits Farmers

- Transparency
- Stringent Child Labor Standards
- Ensures Fair Wages
### Corporate Responses to Similar Crises

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Issue Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nike</td>
<td>1997</td>
<td>Using child labor to produce soccer balls in Cambodia, Pakistan, and China</td>
</tr>
<tr>
<td>Gap</td>
<td>2007</td>
<td>Child labor allegations regarding manufacturing plant in India</td>
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<tr>
<td>Starbucks</td>
<td>2005</td>
<td>Improper wages and working conditions with Ethiopian farmers</td>
</tr>
</tbody>
</table>
Bibliography

- Limited Brands (2012, April 13). In *Yahoo! Finance*. Retrieved April 14, 2012, from http://finance.yahoo.com/echarts?s=LTD+Interactive#symbol=ltd;range=6m;compare=;indicator=volume;charttype=area;crosshair=on;ohlcvalues=0;logscale=off;source=undefined