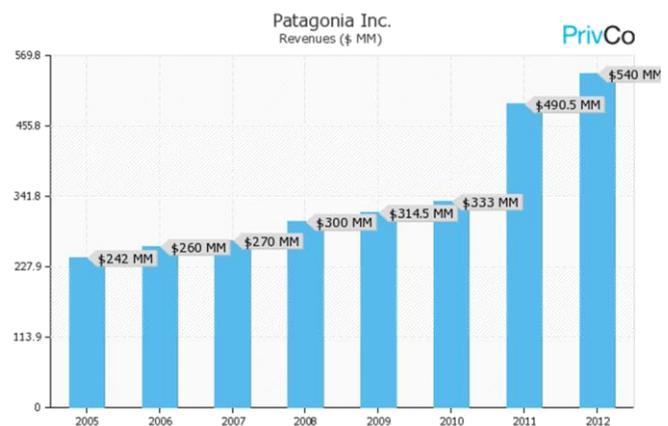


Patagonia Clothing

Patagonia was originally started in 1957 by Yvon Chouinard out of his parent’s backyard with the intent of creating re-usable rock climbing pitons, a relatively unheard of product at the time. Yvon could make two per hour by hand and sold them for \$1.50/piece. Over time, demand grew and in 1965, the company was expanded to Chouinard Equipment, consisting of Yvon Chouinard and Tom Frost, an aeronautical engineer. Together, they re-designed and improved almost every climbing tool in existence at the time to make the tools stronger, simpler, and more functional, using their frequent climbing trips as inspiration. By 1970, they were the largest supplier of climbing hardware in the U.S., and were an environmental villain as their hammer-in piton business was irreparably damaging the very rocks that they so loved to climb.¹ They decided they would phase out their bestselling item, the hammer in piton, in lieu of less environmentally damaging chocks (a relatively un-used alternative at the time), at great risk to their company (which held nearly 80% of the climbing equipment market at the time).

The company history states: “We introduced them [chocks] in the first Chouinard Equipment catalog in 1972. The catalog opened with an editorial from the owners on the environmental hazards of pitons [...] Within a few months of the catalog’s mailing, the piton business had atrophied; chocks sold faster than they could be made. In the tin buildings of Chouinard Equipment, the steady pounding rhythm of the drop hammer gave way to the high-pitched, searing whine of the multiple-drill jig.”¹

Patagonia’s commitment to environmental concerns runs deep within the company and is exemplified by Yvon’s attitude toward sustainability, “I know it sounds crazy, but every time I have made a decision that is best for the planet, I have made money. Our customers know that--and they want to be part of that environmental commitment.”² In recent years, the company has continued to focus on



¹ <http://www.patagonia.com/us/patagonia.go?assetid=3351> – Patagonia History

² <http://www.inc.com/magazine/201303/liz-welch/the-way-i-work-yvon-chouinard-patagonia.html/1>

sustainability through various successful initiatives which can be applied to many businesses wishing to lessen their environmental impacts; from convincing suppliers to grow organic cotton, to changing shipping arrangements, to getting your customers to simply “Buy Less” and make an investment in quality products, Patagonia has excelled at making sustainable products. These initiatives have paid off handsomely for the company as well, with Patagonia posting record revenues of \$540 million in 2012, with \$68 million in income.³

Sustainability Initiatives

Patagonia’s sustainability initiatives are as wide ranging and diverse as the clothing the company produces; from Patagonia’s tracking of its supply chain all the way back to its sources to avoid labor issues and potential supplier concerns⁴, well in excess of any formal regulations placed on it. Patagonia is also California’s first B-Company, a legal status in which the company enshrines its environmental concerns as a core responsibility of its business and protects it from shareholder lawsuit about its investment of profits toward environmental issues outside the company.⁵ The following initiatives are prime examples of its commitment to sustainable products: its efforts to push its cotton suppliers to go organic, efficiencies in shipping, and unconventional advertising campaigns.

Organic Cotton – Grown in the USA

In 1994, Patagonia commissioned an independent environmental impact assessment of some of the major fibers used by the company with the expectation that it would find its oil based fabrics to be the most environmentally harmful. Much to its surprise, Patagonia found the other fabrics environmental impacts paled in comparison to cotton’s harm to the environment. Cotton production for Patagonia products used an inordinate amount of water, pesticide, and defoliants.

“To grow the cotton, then weave and dye the fabric for a single Patagonia pima cotton shirt uses over 600 gallons – the equivalent of a day’s drinking water for 630 people.”⁶

“In the San Joaquin's cotton fields, for miles around no birds sing or insects hum; the air stinks, the eyes burn, toxins stain the irrigation ditches. Hired men with shotguns sit in lawn chairs by the "lakes" in order to scare off waterfowl and shorebirds before they land in the toxic soup.”⁷

³ <http://www.privco.com/private-company/patagonia/export> - Privco Graph Export

⁴ <http://www.patagonia.com/us/footprint/> - Patagonia’s supply chain

⁵ <http://articles.latimes.com/2012/may/24/business/la-fi-patagonia-20120525> - California’s first B-Company

⁶ <http://www.patagonia.com/us/patagonia.go?assetid=66446> – Clothes to Dye for, Patagonia

Having found this out, Patagonia couldn't continue doing business this way, "If we continue to make clothes with conventionally grown cotton, knowing what we know now, we're toast anyway. Let's do it; let's go organic."⁷ Patagonia set a goal that by 1996, 100% of their cotton product line would go to organically grown cotton. In doing this, Patagonia had to go directly to the farmers of organic cotton to try to influence them to sell directly to Patagonia, which they did at roughly three times the cost from the previous year costs of non-organic cotton. In addition, Patagonia had to cut its lineup of styles from 91 cotton products to 66 to account for the lower supply of cotton, it also cut into its margins on the products sold so that the new organic products would not account for more than a 2% price increase over the traditional cotton products it used to sell.⁷ It took two years to get the farmers certified organic, during which time Patagonia was losing money in getting everything in place, it's sales taking a nearly 20% hit as the product transition was occurring. In 1996, the entire line was successfully transitioned to the organic cotton fabric, and despite the initial costs with getting the product moved over to a more sustainable alternative, sales have increased every year since, with 2012 being a record sales year for the company.³

Changing Ports Pays Dividends

In 2011, Patagonia decided to examine its transportation network for the goods it produces, 60% of which are made in Asia.⁸ It found that the products are shipped from a number of Asian countries to the Port of Los Angeles, placed on trucks and shipped overland to its Reno, Nevada distribution center, in total a 523 mile journey from the port. Patagonia had used this port since it had a distribution center much closer in Ventura, California which it had outgrown and had simply never changed to a different port because of "such things as a long history with the people and processes in Los Angeles, reasonable port costs, a large number of vessel sail times to choose from, and the flexibility of having three different trucking routes to Reno should inclement weather or some other event close a highway."⁸ All perfectly logical reasons for not changing ports; however Patagonia's research into its transportation network found that:

"Road miles are more expensive and CO2 emissions 4 to 7 times as high. Truck drivers are required to rest for 10 hours after 11 hours behind the wheel, which can result in delivery delays. Trucks break down more frequently. To complete a truckload, we often had to combine shipments, which also delayed deliveries and complicated things at our warehouse. We even

⁷ <http://www.patagonia.com/us/patagonia.go?assetid=2066> – Organic Cotton Case Study

⁸ <http://www.patagonia.com/us/patagonia.go?assetid=79365> – Changing ports pays dividends, Patagonia

had a couple of shipments stolen en-route to Reno, when drivers parked their rigs to spend the night.”⁸

Taking this into consideration, Patagonia decided to change ports to the Port of Oakland, a much closer port to the new Reno distribution center, a 229 mile overland trip from the port. Patagonia’s change in port is estimated to have saved them:

	Old Route	New Route
# Miles	523 miles	229 miles
Greater than 10 hours	Yes	No
Co-mingle loads	Yes	No
Required overnight stops	Yes	No
# Routes to Distro. Center	3	1

“\$324,000 [a year] mostly in transloading and transportation costs and reduced our carbon footprint by 135,000 kilos or 31% [a year]. In addition, we no longer have to co-mingle loads, and drivers can make the 229-mile trip to Reno in well under 10 hours. [The only downside is] We now

have just one viable truck route from Oakland to Reno (Interstate 80), which goes over Donner Pass and is subject to closure in severe winter conditions. But other than that, the change was extremely positive.”⁸

By making this simple operational change, Patagonia was able to simultaneously lessen its carbon footprint while saving itself hundreds of thousands of dollars a year with very few down-sides.

The Buy Less Campaign

In 2011, Patagonia launched a curious ad campaign with a full page ad in the New York Times to kick off the Christmas shopping season. Its copy read, as shown at right, “DON’T BUY THIS JACKET,” a plea for consumers to think twice before purchasing anything in particular that holiday season, noting:

“The environmental cost of everything we make is astonishing. Consider the R2® Jacket shown, one of our best sellers. To make it required 135 liters of water, enough to meet the daily



needs (three glasses a day) of 45 people. Its journey from its origin as 60% recycled polyester to our Reno warehouse generated nearly 20 pounds of carbon dioxide, 24 times the weight of the finished product. This jacket left behind, on its way to Reno, two-thirds its weight in waste.”⁹

As a follow-up to this ad campaign, in 2013 Patagonia introduced a follow-up initiative, “Better Than New” which created a used goods market through which Patagonia allows customers to trade back its products for either recycling or sale by Patagonia, as well as creating a process for the company to repair customers clothing for a cost so it can continue being used rather than thrown away.¹⁰ The effect on Patagonia has been pronounced, “In the two years that Patagonia has been publicly imploring customers to ‘buy less,’ its annual sales increased by almost 38 percent, to \$575 million. Patagonia founder Yvon Chouinard has estimated sales will continue to grow by about 15 percent a year.”¹⁰

One might argue that this initiative is a failure, as the customers are actually buying more products, however by creating a clothing repair business for their products, as well as selling “gently” used items it had previously created and sold once already, Patagonia has closed the loop on their business, in effect allowing for a way to both make a profit by selling a good twice (for very little cost the second time around, i.e. refurbishment) and keeping their goods out of landfills across the world. This initiative also allows Patagonia to possibly recycle these goods to create new goods out of them (further reducing their costs). In the end, Businessweek sums it up best, “In short, one could argue more business for Patagonia is a good thing for the planet, particularly if it is commerce that otherwise would have gone to a less-green competitor.”¹¹

⁹ <http://www.patagonia.com/email/11/112811.html> - Common threads ad copy

¹⁰ <http://www.businessweek.com/articles/2013-09-25/why-patagonia-wants-to-sell-you-ratty-old-swim-trunks> - Buy less campaign

¹¹ <http://www.businessweek.com/articles/2013-08-28/patagonias-buy-less-plea-spurs-more-buying> - Buy Less campaign

Case Problem

In this case, we have examined a few of Patagonia's Sustainability initiatives; its switch to organic cotton, changes to its shipping procedures, and finally its off-kilter marketing campaign attempting to get people to buy less of its products. You will now attempt to quantify these initiatives by way of Nidumolu, Prahalad, and Rangaswami's Five Stages of Sustainable Company Development from the article, "Why Sustainability is Now the Key Driver of Innovation." Short descriptions of the Five Stages can be found in Appendix 1, read them and consider the following questions:

1. Identify where your initiative fits in Nidumolu, Prahalad, and Rangaswami's Five Stages. Provide your thinking as to why it fits there.
2. For your initiative, what are the costs/ benefits associated with it? Did they make Patagonia more or less competitive in the short term/long term, and why?
3. Why do you think your initiative produced the results it did?
4. Is your initiative immediately transferrable to other companies/industries? Why or why not?

Note, not all five stages may be present due to the scope of this assignment, find the *best* fit in your opinion, one for each initiative.

Appendix 1- The Five Stages

The Five Stages¹²	
Stage 1: Viewing Compliance as Opportunity	<i>It's tempting to adhere to the lowest environmental standards for as long as possible. However, it's smarter to comply with the most stringent rules, and to do so before they are enforced.</i>
Stage 2: Making Value Chains Sustainable	<i>At this stage, corporations work with suppliers and retailers to develop eco-friendly raw materials and components and reduce waste. The initial aim is usually to create a better image, but most corporations end up reducing costs or creating new businesses as well.</i>
Stage 2: Supply Chains	<i>Large corporations induce suppliers to become environment-conscious by offering them incentives.</i>
Stage 2: Operations	<i>Central to building a sustainable supply chain are operational innovations that lead to greater energy efficiency and reduce companies' dependence on fossil fuels</i>
Stage 2: Workplaces	<i>Partly because of environmental concerns, some corporations encourage employees to work from home.</i>
Stage 2 : Returns	<i>Instead of scrapping returned products, companies at this stage try to recapture some of the lost value by reusing them. Not only can this turn a cost center into a profitable business, but the change in attitude signals that the company is more concerned about preventing environmental damage and reducing waste than it is about cannibalizing sales.</i>
Stage 3: Designing Sustainable Products and Services	<i>At this stage executives start waking up to the fact that a sizable number of consumers prefer ecofriendly offerings, and that their businesses can score over rivals by being the first to redesign existing products or develop new ones. In order to identify product innovation priorities, enterprises have to use competencies and tools they acquired at earlier stages of their evolution. Companies are often startled to discover which products are unfriendly to the environment.</i>
Stage 4: Developing New Business Models	<i>Developing a new business model requires exploring alternatives to current ways of doing business as well as understanding how companies can meet customers' needs differently. Executives must learn to question existing models and to act entrepreneurially to develop new delivery mechanisms.</i>
Stage 5: Creating Next-Practice Platforms	<i>Next practices change existing paradigms. To develop innovations that lead to next practices, executives must question the implicit assumptions behind current practices. This is exactly what led to today's industrial and services economy. Somebody once asked: Can we create a carriage that moves without horses pulling it? Can we fly like birds? Can we dive like whales?</i>

¹² <http://search.ebscohost.com/login.aspx?direct=true&db=buh&AN=43831035&site=ehost-live>