

# PATAGONIA'S INNOVATIVE BUSINESS STRATEGY

Sustainability and Stability: Patagonia's Innovative Business Strategy

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### Abstract

As Patagonia continues to lead the charge in sustainable business practices, it is clear that they have come this far using their talent, determination and innovative outlook. Its rise to a respected and highly profitable company is unparalleled in the industries it operates in. The following study attempts to trace the success of the company to its simple origins, addressing the steps it has taken to be recognised as one of the world's most, if not the most, innovative companies. With the rise of a more connected people, Patagonia's corporate social responsibility policy has influenced the fruition of its sustainable innovation plans. The way the company has adapted to digitization and engaged its customers through social media is a business model that continues to make other organizations envious. Its foray into the food industry remains one of its most interesting decisions while its efforts to establish a standard for ecologically and socially responsible agricultural practices is a first in many regards. As Patagonia braces itself with the challenges of tomorrow, it must look to expand globally and into different markets, looking to draw inspiration from renowned global innovation strategies.

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### Brief Corporate History

Yvon Chouinard's story is one of the most unconventional you will find among American businessmen. Spending much of his childhood learning to climb cliffs and icefalls, Chouinard translated that hobby into a startup called Chouinard Equipment in 1957 which catered to making reusable pitons that were stronger and lighter. Innovation ran in the startup's veins when Chouinard partnered with Tom Frost in 1965 and they together re-engineered all the climbing gear in their catalog to be more functional, durable and ecofriendly. Frost and Chouinard would continue to be partners for nine more years in which they would introduce climbing apparel to their product line which would become widely popular among climbers for being made of sturdy material. Patagonia as a company came into existence in 1973, imbued with the passion and environmentally-friendly principles that Chouinard brought with him. After nearly going bankrupt in 1974 and surviving the recession of 1991, Patagonia would go on to grow at an astounding rate, obtaining three times the profit from 2008 to 2014 and being one of the few companies to see a substantial 25% growth rate during the 2008 financial crisis.

Today, Patagonia oversees 88 stores worldwide which includes a product range consisting of outdoor apparel for men, women and children, specialized hiking equipment and a range of accessories to supplement customer activities that involve outdoor adventure sports. It also champions the cause of environment awareness by actively donating 1% of all its sales to causes that support environmental sustenance. Unlike conventional for-profit companies, Patagonia takes its corporate social responsibility very seriously. Its quirky and bold marketing campaigns along with the leadership's never-give-up attitude continues to drive the company's efforts towards manufacturing and repairing products that their customers can be proud to wear,

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and the environment can sustain. These efforts have rightly earned Patagonia a spot in the world's top 50 innovative companies in 2012 and 2018 as well as recognition for social good in 2014 and 2017.

### Social Impact Legacy

By 2020, forty percent of consumer population will be from Generation Z and the CEO of Patagonia, Rose Marcario, strongly believes this generation will, as citizens as well as consumers, demand more from companies with respect to doing environmental and social good. To that effect, Marcario has and continues to effectively establish policy that drives innovation minus the burden on the environment. When executives at Patagonia realized that nearly 6.9 million pounds of inorganic fertilizers were used to source the cotton for their fabrics, having catastrophic effects on soil health and water, they researched the use of organic cotton and realized that the quality and yield was equal or better than its inorganically grown counterpart. Smart investments in novel ideas have led to optimization of the production process and supply chain that has effectively hit two birds with one stone: increasing the life span of products and thus reducing unnecessary waste generation as well as eliminating unwanted extra processes and costs by removing redundant packaging.

Challenging suppliers to innovate for the sake of social justice can be a tough ask, especially when suppliers are predominantly profit-oriented. Such was the case when PrimaLoft was asked by Patagonia to use recycled materials in the manufacturing process of its insulation materials. A year later, not only did PrimaLoft succeed in supplying products with the desired reduction in carbon footprint, it managed to maintain quality standards and is now an open

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source solution for all companies that deal in outerwear. If there's anything better than innovation, it's innovation that transcends the boundary of monetary profits for the betterment of society.

### Environmental Activism Meets Social Media

Patagonia has, since its inception, been a company that has been an active participant against government and corporate policies and practices that have had a negative impact on the natural resources of our planet. It has been instrumental in supporting causes a community is passionate about, financing activists and protests in its 45-year history that sums up to no less than \$90 million. Recently, it vehemently protested the Trump administration's decision of shrinking the size of national monuments, promising to take the government to court. Such is the fervor that drives the employees of Patagonia.

Patagonia has not stopped at merely financing grassroot organizations. Instead they have used innovation to marry their enthusiasm for social causes with social media. With this move, Patagonia delivers on a platform where like-minded people passionate about a cause can connect with each other and organizations. Patagonia Action Works aims to involve and engage its customers with pressing social and ecological issues and mobilize them to participate and volunteer with communities and organizations to fight against social injustices. Environmental organizations can use the platform to communicate with and inform communities about their activities and employ their talent for certain tasks. Patagonia will also use its new social platform to offer digital tools and train individuals and organizations alike lacking the resources and

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expertise in their domain. This kind of commitment has only resulted in positive public relations for Patagonia.

Displaying this zeal towards corporate social responsibility places Patagonia favorably in the eyes of the socially and environmentally conscious customer. It positions the corporate mission and business to reflect a positive brand image that can be marketed to the consumer.

### ROC Standard

Back in 2012, Patagonia forayed into unknown territory, to change the food industry by delivering healthy edibles to the consumer by using sustainable farming and production practices. Founder Chouinard and CEO Marcario claim that for far too long, sustainable practices have been intertwined with conventional ones, defeating the purpose of a cleaner and greener planet. Patagonia Provisions, the food division of Patagonia, aims to inculcate the culture of regenerative organic farming and fishing into every product it makes, producing higher quality food while rejuvenating the soil with organic nutrients and fighting against global warming by cutting down on the emission of greenhouse gases. Patagonia Provisions uses the expertise of researchers, scientists, non-government organizations and chefs to make their alternative to food sourced by environmentally harmful practices a healthy, practical and tasty option for customers. The wave of organic farming doesn't stop at food products at Patagonia Provisions, as the company is highly invested in adopting a supply chain that is completely organic. Patagonia also strictly overlooks the farming and sourcing of 100% organic cotton in all its products.

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Driven by the goal to see more participation by companies to become involved in sustainable business practices that will benefit the planet and its inhabitants, Patagonia has gone a step further and initiated the creation of the Regenerative Organic Certification (ROC). Keeping Doz's eighth rule about building enough knowledge overlap for collaboration in mind, Patagonia's intent, along with Dr. Bronner's and Rodale Institute, is quite clear: to create a standard that encourages eco-friendly and sustainable farming practices which is labor friendly and takes animal welfare into consideration to produce quality products. A likely side effect of achieving a certification like this would be higher costs. But research points to the fact that 55% of people are willing to pay more for products that are produced, sourced and manufactured using methods that are ecologically beneficial. Patagonia and its partners developed this standard to be more dynamic to the needs of farmers, incorporating clauses to provide training to farmers who seek to adopt the principles guiding the advancement of biodiversity and soil regeneration. Applying Doz's first rule for managing global innovation which advocates starting small, Patagonia is going to launch a pilot program this year to promote the certification and gain valuable feedback about tweaking it before a full-fledged rollout. Representatives from Patagonia, Rodale Institute, Dr. Bronner's and other renowned non-profit organizations will provide process transparency while flexibility to incorporate new research and data to improve soil health and farming practices will encourage more farmers and companies to adopt this standard.

## Recommendations

Sales & Profitability growth for this industry vertical has remained stagnant and is likely to remain in low, probably single digits for the next few years. Also, a strong correlation with

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economic growth on which Patagonia has no control makes it imperative to de-risk the business by broadening the consumer base.

A paradigm shift is the need of the hour. While consolidation of the existing business is of paramount importance, the company does need to delve into focussing on emerging BRIC economies and diversify its competency across a wider spectrum of sports products.

The following processes are some ways Patagonia can maintain, and probably improve on, its status as a world-renowned, respected and innovative company -

1) Consolidation: Intense competition from local competitors & large lifestyle or fashion retailers who sell similar clothing and cater to an increased trend of looking 'sporty' has made Patagonia vulnerable. These 'me too' products are non-technical in nature but accommodate an ever-growing demand for sportswear. Patagonia will need to protect its market share in such channels of distribution. Since the capital cost of establishing exclusive stores is high, Patagonia should explore the 'concessionaire' model within midsize chains by putting up dedicated spaces that each measure around 1000 square feet. This dedicated space should be manned by company trained retail professionals which will ensure conveying the ethos of the brand and at the same time give better financial returns.

2) Incorporate other outdoor sports in the product catalogue: Patagonia has been a leader in product innovation like reusable pitons and incorporating organic cotton in their product range among other things that give it a 'Green & Sustainable' tag. But this competency has not been applied across other outdoor activities & sports like basketball, baseball, tennis, boxing and



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athletics. The same innovative spirit can and should be applied to sports & outdoor activities in the emerging markets.

3) Develop and outsource compelling sustainable products: This will ensure a unique proposition for the brand & yield better returns since competitive pressure will be lesser compared to existing product lines. For example, recycled PET (Polyethylene terephthalate) yarn is a new innovative material used in apparel products that is made from the plastic found in soda bottles and carry bags. In developing markets, availability of raw material will never be an issue & costs will be relatively lower. This kind of innovation is in line with 'sustainable' product philosophy & it can help in reducing supply chain costs. It will also help in expanding the company's footprint in emerging markets. This method can be pursued on a licencing model thereby ensuring steady cash flows over a longer period of time.

## Conclusion

Yvon Chouinard's company stemmed not from the need to generate income and profits but rather a simple desire to be heard. All he wanted was for the world to consider the damage it caused mother nature and how he could play a small part in sustaining the planet. Today, Patagonia's voice cannot be subdued as its strong and determined voice for sustainable business echoes sharply and clearly around the world. The skill to question the norm, network with customers and like-minded executives, associate problems to form a standard solution and observe market trends to meet with their corporate social policy has made Patagonia a force to reckon with in the apparel industry. Clearly its DNA has been embedded with an innovative spirit since its very inception.

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Patagonia's determination to save the planet and fight for social welfare and justice only begins with the apparel industry which is its Box 1. Pilot projects like foraying into the food business that supports organic and eco-friendly farming practices and creating a standard certification along with the help of established organizations and individuals all throw light on the maturity with which the company is innovating its Box 3. With responsible senior management like Chouinard and Marcario providing a stable organizational context, employees can leverage the freedom to execute innovative ideas that align with their financial statement and corporate policy. These above core competencies & skill sets will come in handy when the company forays into uncharted geographies & distribution models. It is therefore a unique entity, one which radiates with the ethos of innovation as it lives and breathes.

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