



PATAGONIA CASE STUDY

In a group or on your own, put yourself in the place of the Patagonia's CEO making a \$20million bet on Sustainability

Patagonia is an outdoor clothing company, renowned for its commitment to sustainability. For example, it donates 1 percent of its sales (not profit) to environmental causes and donates about \$100 million to environmental groups annually. It is headquartered in California but sells their products globally. It is a privately owned business.

Scenario

In the early 1990s, two incidents convinced Patagonia to look into organic cotton.

1. A new Patagonia store in Boston gave employees headaches – brought on by poor ventilation and chemical fumes released from clothing
2. An ecoactivist took the founder and senior team on a tour of a conventional cotton farm, which accounted for 2.5% of the world's cultivated land but 22.5% of chemical insecticides & 10% of insecticides.

It was the 'sound of silence'; farms with no bugs, birds or life.

A key decision had to be made – how can a business transition 166 lines of sportswear (representing 30% of their revenue) from conventional to organic cotton? Especially when faced with:

- **Limited buy-in from employees.** Only 5 years on from making 20% staff redundant (before re-hiring) there was a 'quiet revolt' amongst employees to the change. *How can you create buy-in to change the business?*
- **There is no supply** – it costs farmers significant money and time to transition, plus the company historically dealt only with factories (not the farmers/mills themselves). *How can you make this change attractive and manageable for the supply chain?*
- **No Demand** – 'organic cotton' doesn't exist as we know it. There is little/no understanding of the issues with conventional cotton. Organic cotton costs 50–100% more, but consumers are only willing to pay 2–10%. *Who is going to pay for this and how can you get consumers on board?*

Your Task:

- Put yourself in Patagonia's shoes – discuss **how you might lead the transition from conventional to organic cotton** for the entire sportswear business?
- Tackle each of the 3 questions above and **develop a rough process/timeline for the transition**. Also consider what a 3 point strategy for success would look like.
- **Discuss/note these in your group and remember there is no 'wrong' answer** – once you are ready to move forward, read the next page to find out how Patagonia proceeded and compare your response.



PATAGONIA'S RESPONSE

Go All In

From an ethical perspective, Patagonia felt there was 'no choice' – the whole sportswear line would have to transition to organic cotton within 18 months, or they would stop selling them. Their plans:

Employees – Get buy-in and use as advocates:

- **Take the Show on the Road** – 'powerpoint presentations were not going to cut it'. Patagonia wanted their employees to experience the change/need first-hand so organised tours of conventional and organic cotton first-hand. This was a 'lightbulb moment' and led to a DIY education effort; one employee talking to another about what they experienced.
- **Virtual Tours** – employees made a 'home-made' video tour of their experience to share with international colleagues. No 'marketing spin'; genuine employee-led messages.
- **Gamification** – Patagonia developed an organic cotton board game to provide employees.

Suppliers – Create a New Supply Chain:

- **Developed their own private cotton supply** – Patagonia built relationships with farmers and textile mills directly, to create a new supply chain that also needed a lot more managing and administrating (not just dealing with factories).
- **Take them on the journey** – Led a 3 day 'emotionally charged' supplier conference to convince suppliers to stay and switch with them. To create the supply.
- **Support the transition** – Patagonia bore many of the 2-year costs of converting to organic cotton; (something they still do to this day).

Customers – Create Awareness and Demand:

- **Sell the Cause** – 50% of stores and (at least) 25% of advertising messages were dedicated to the environmental message – sell the issue, not the clothes. They also created an organic cotton kids colouring book to sell in stores.
- **Utilised employees** – the farm tours meant employees were able and willing to talk directly with consumers about the change.
- **Took a financial hit** – the cost of organic cotton was roughly three times the cost from the previous non-organic cotton costs, but they only passed on an average price increase of 2% to their products.
- **They reduced their line** – they could not get the same supply so dropped 166 products to 66.
- **They accepted loss of sales in transition** – a 20% drop in sales through transition.

Was it a Success? Go to the next page to find out!



PATAGONIA CASE STUDY

Was it a Success? Patagonia's 3 point plan:

1. **Sell the new organic line successfully** – It took just 2 years for revenues to return to previous levels and sales increased year-on-year after that, i.e. **this was achieved.**
2. **Encourage organic cotton farming (more supply)** – the employee tours carried on for 10 years and they were able to establish a whole new and direct supply chain. They still support cotton farmers through the 3-year transition to get certified 'organic'. **This was achieved.**
3. **Influence the wider apparel industry to use organically grown cotton** – the cotton industry remains less than 1% organic and most suppliers chose not to convert (Patagonia only use 90 suppliers globally, compared to 2,000 for GAP). **This remains aspirational, although it did encourage Nike, Adidas and Levi all to start organic cotton lines.**

Final Thoughts:

How did the 18 month timescales compare with your own? Would you have been brave enough to take such a decision? Do you think it would have been possible to make this decision had iPatagonia not been privately owned (mainly by the founder and board)?

“

“It changed the way we did business and had an impact on every job in the company – in a very exciting way

Jil Ziligen

VP for Environmental Initiatives

Articles referenced in this case study:

<https://eu.patagonia.com/gb/en/stories/changing-the-fabric-of-our-lives/story-79355.html>

<https://eu.patagonia.com/gb/en/video-recycled-cotton.html>

<https://www.greenbiz.com/article/patagonias-journey-sustainability>

<https://eu.patagonia.com/fr/en/stories/how-we-got-here-organic-cotton/story-97024.html>

<https://danielsethics.mgt.unm.edu/pdf/patagonia.pdf>

https://business.uccs.edu/sites/g/files/kjihxj1606/files/migrated_files/Patagonia%20Case%20Study.pdf

https://gps.ucsd.edu/files/faculty/gourevitch/gourevitch_cs_pongtratic.pdf

For more on Patagonia check out Let My People Go Surfing (Including 10 More Years of BusinessUnusual)' by Yvon Chouinard

<https://eu.patagonia.com/gb/en/product/let-my-people-go-surfing-revised-paperback-book/BK067.html>