

**patagonia®**

*“Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.”*

**patagonia<sup>®</sup>**

**Simon Foucher  
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# **AGENDA**

**Company Overview**

**External and Internal Analysis**

**Alternative Solutions**

**Recommendation**

**Implementation**

# COMPANY OVERVIEW

**History-** Founded by Yvon Chouinard

**Governance-** Private Company

**Philosophy-** Dirtbag Lifestyle

**Segment-** Luxury Outdoor Products:

Sportswear, Technical Outerwear,  
Technical Knits, Hard Goods, Misc

**Goal-** Achieving Growth aligned with  
Philosophy





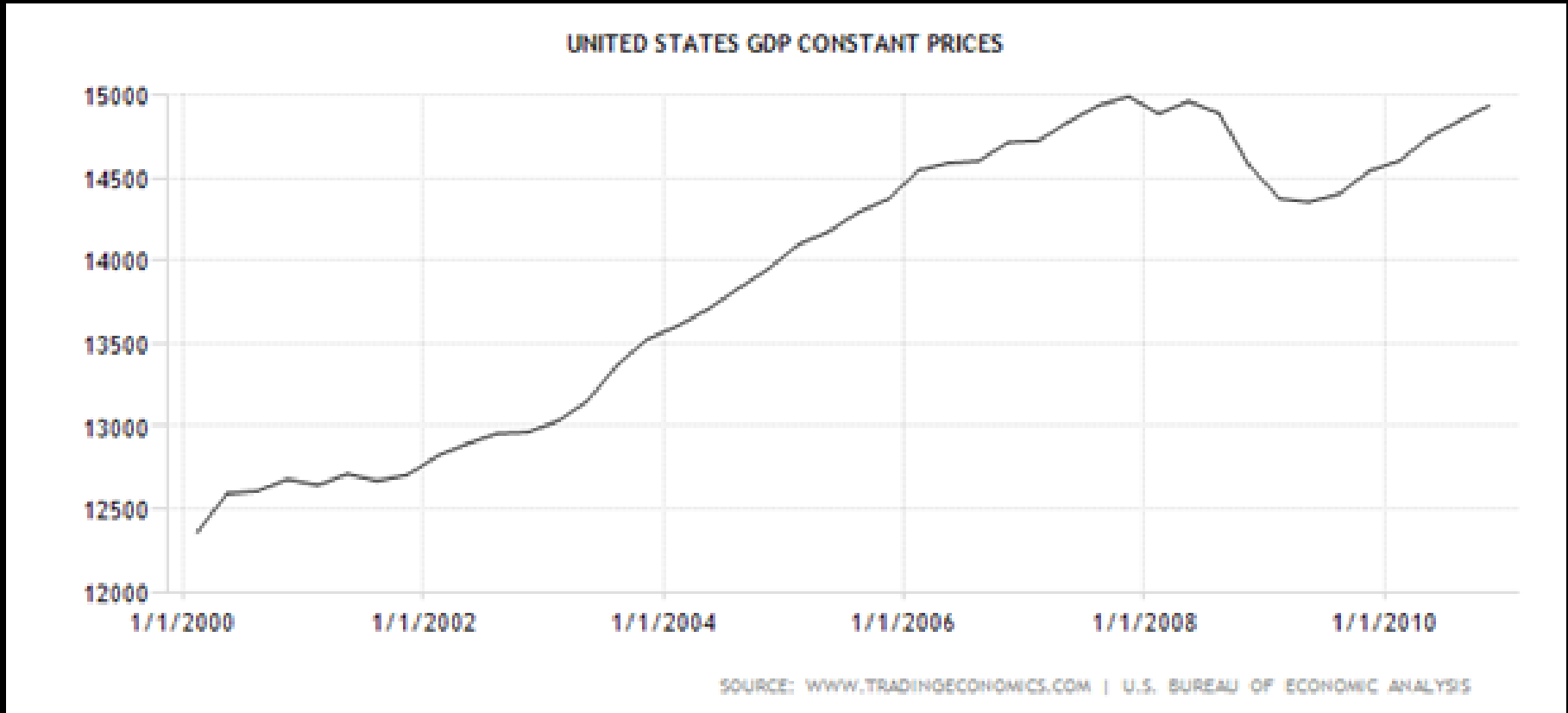
EXTERNAL ANALYSIS

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# GENERAL ECONOMY

## Focus on US Economy

Spring 2010- Indication of Slow recovery in GDP after 2009 recessionary trough



# US OUTDOOR RECREATION ECONOMY

- **US\$646 billion in direct consumer spending annually**
- **5% growth annually from 2005-2011 despite recession**

**48.9% of Americans** In 2009, 48.9 percent of Americans ages six and older participated in outdoor recreation,



45 percent of outdoor participants are from households with incomes of \$75,000 or greater.



82 percent of outdoor participants plan to spend more time participating in outdoor activities in 2010.



42 percent of outdoor participants say the economy impacts how often they participate in outdoor activities.

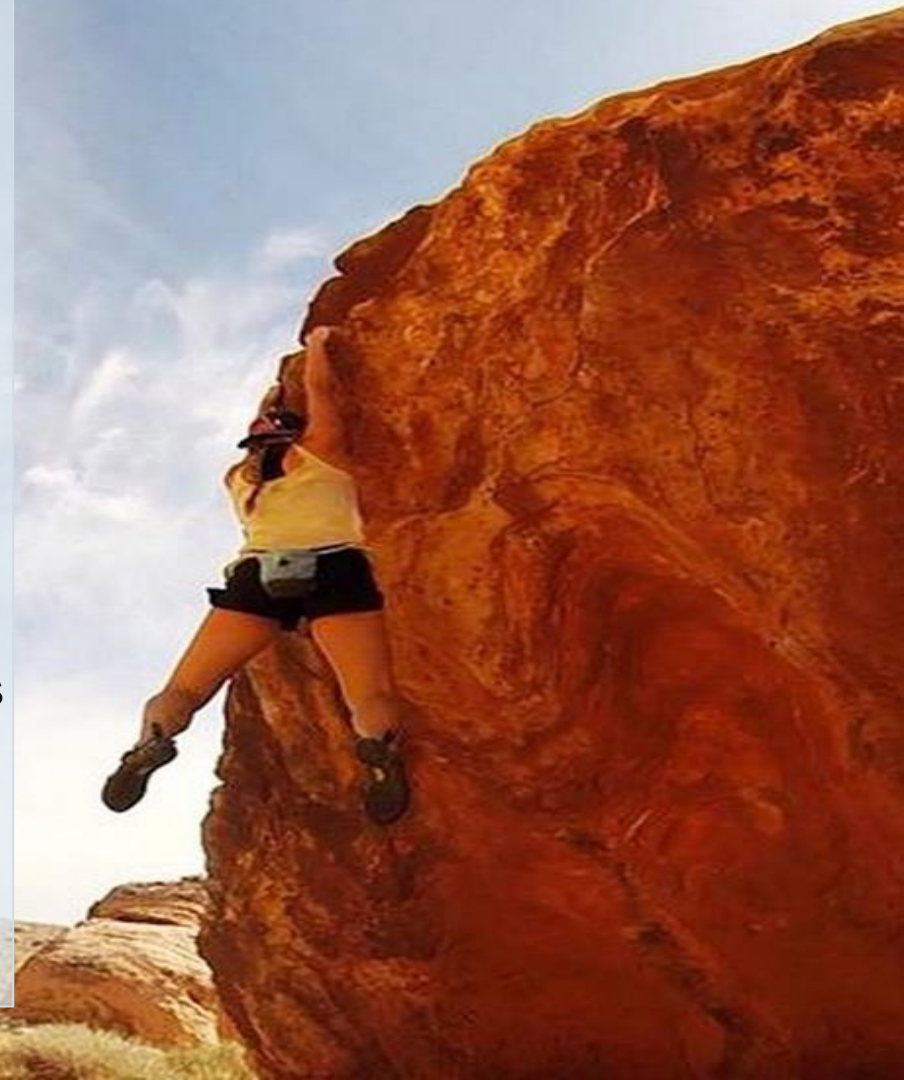
# DEMOGRAPHICS

## Correlation between Outdoor Participation and Attitude;

89% - of participants believe in preserving undeveloped land for outdoor recreation

AND

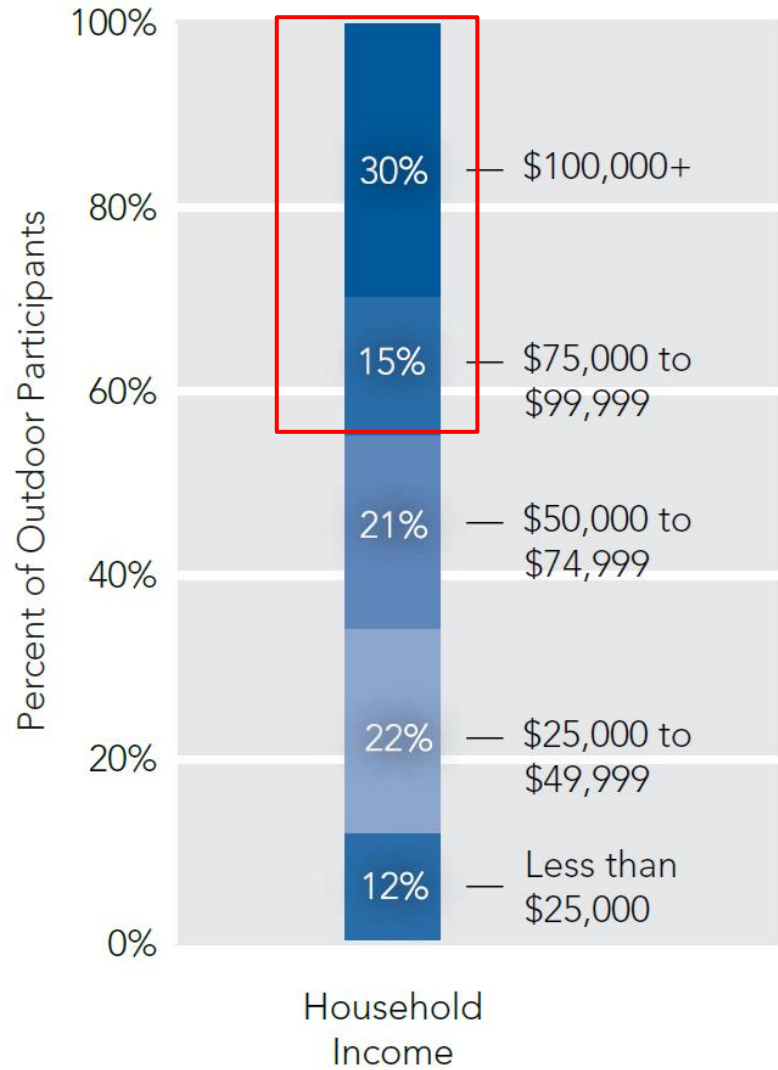
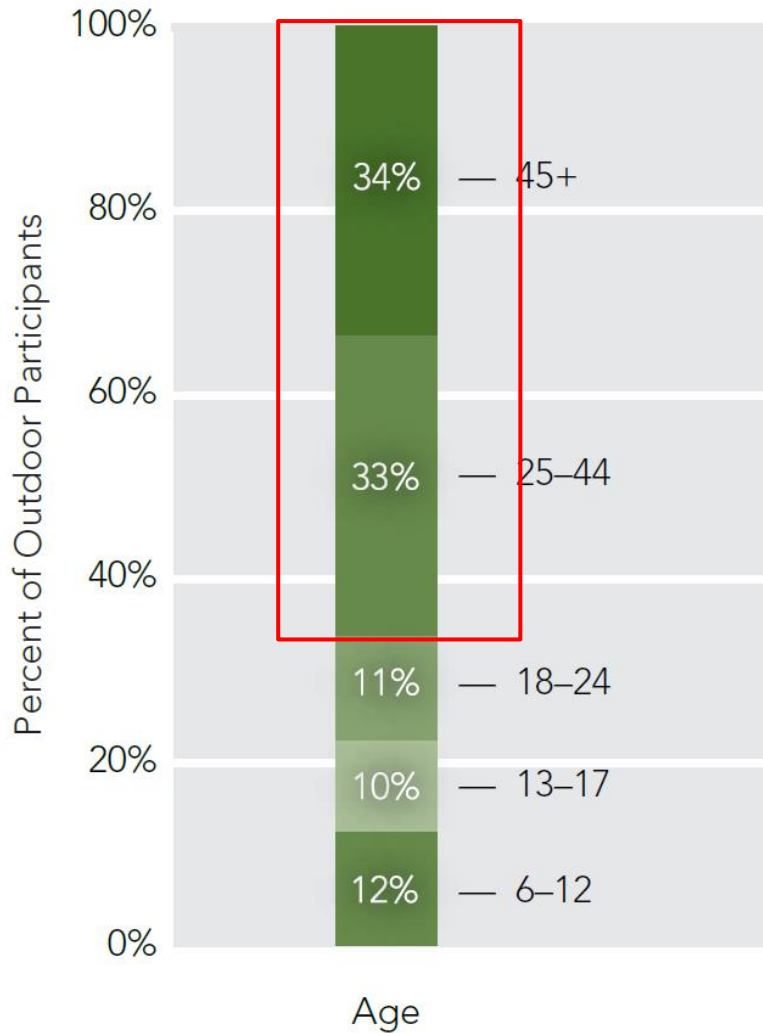
38% of participants have donated/volunteered to support environmental and conservation efforts





# Participation in Outdoor Activities

All Americans, Ages 6 and Older



# GLOBALIZATION

**People from Mature Economies seek more extreme sports and experiences**

**World Tourism Organization (2006):  
Nature tourism expands at 6 times  
rate of tourism overall**

**People engaging in ecotourism want to be part of activities that benefit local and global environment**

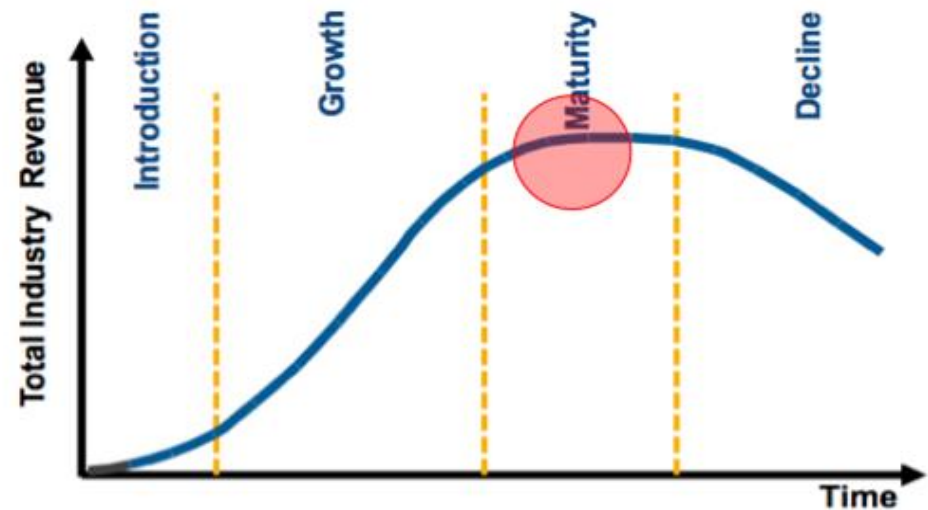
**Environmental and Community Awareness increasing; Global Warming, Pollution and Deforestation**



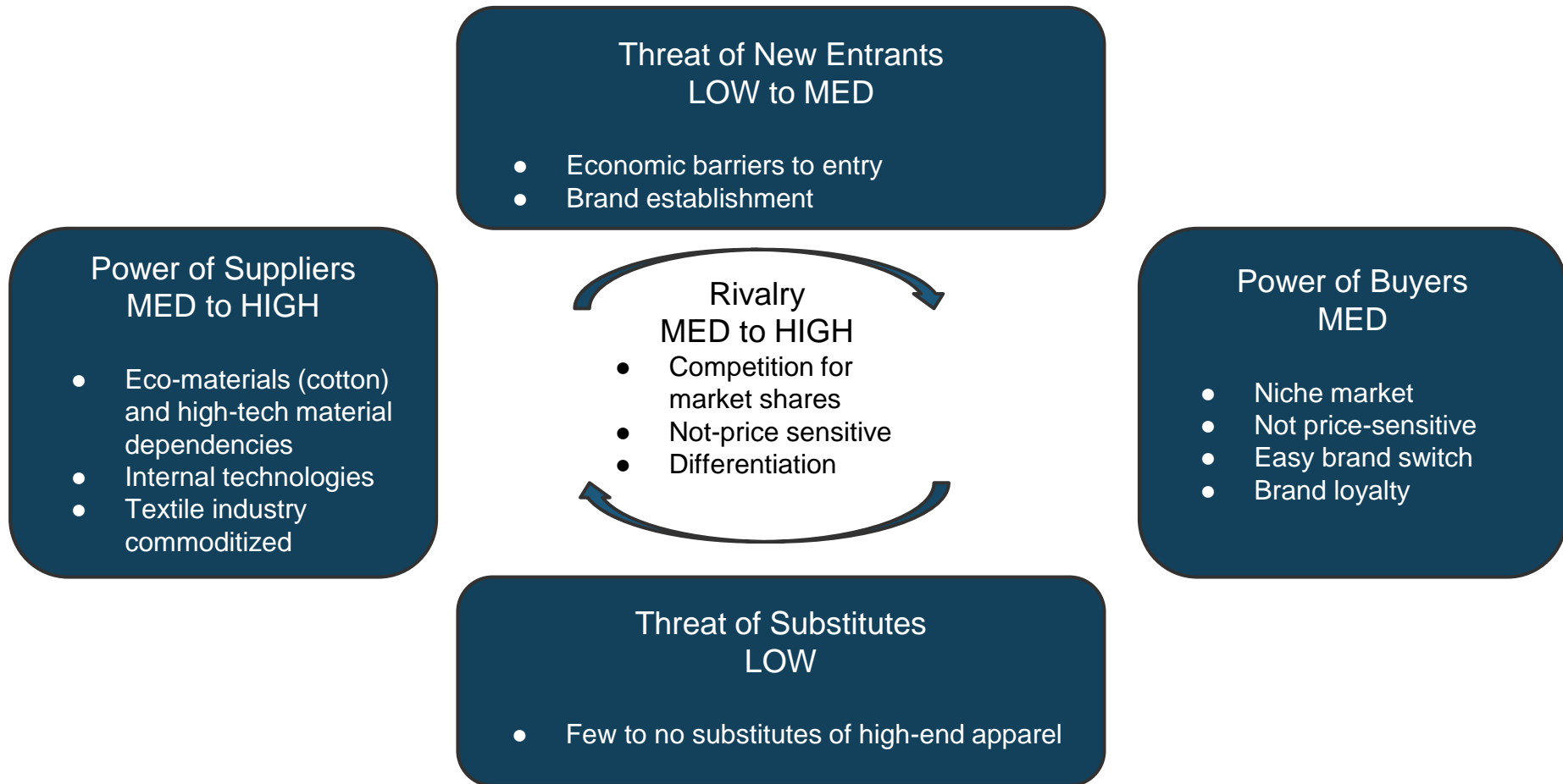
# INDUSTRY ANALYSIS



- High-end outdoor apparel
- Maturity Stage in Life Cycle
- Product segments are well defined and experience only slight changes annually
- Industry growth expected to follow increase in population and purchasing power of emerging markets



# INDUSTRY ATTRACTIVENESS

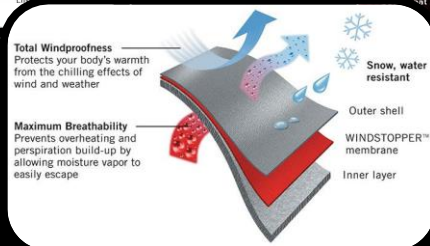
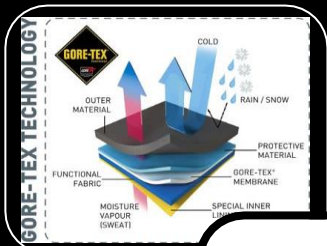


**Attractiveness: LOW to MED**

Especially not attractive for new entrants

# KEY SUCCESS FACTORS

- Value chain optimization
- Establishment of brand
- Marketing of technical materials and designs

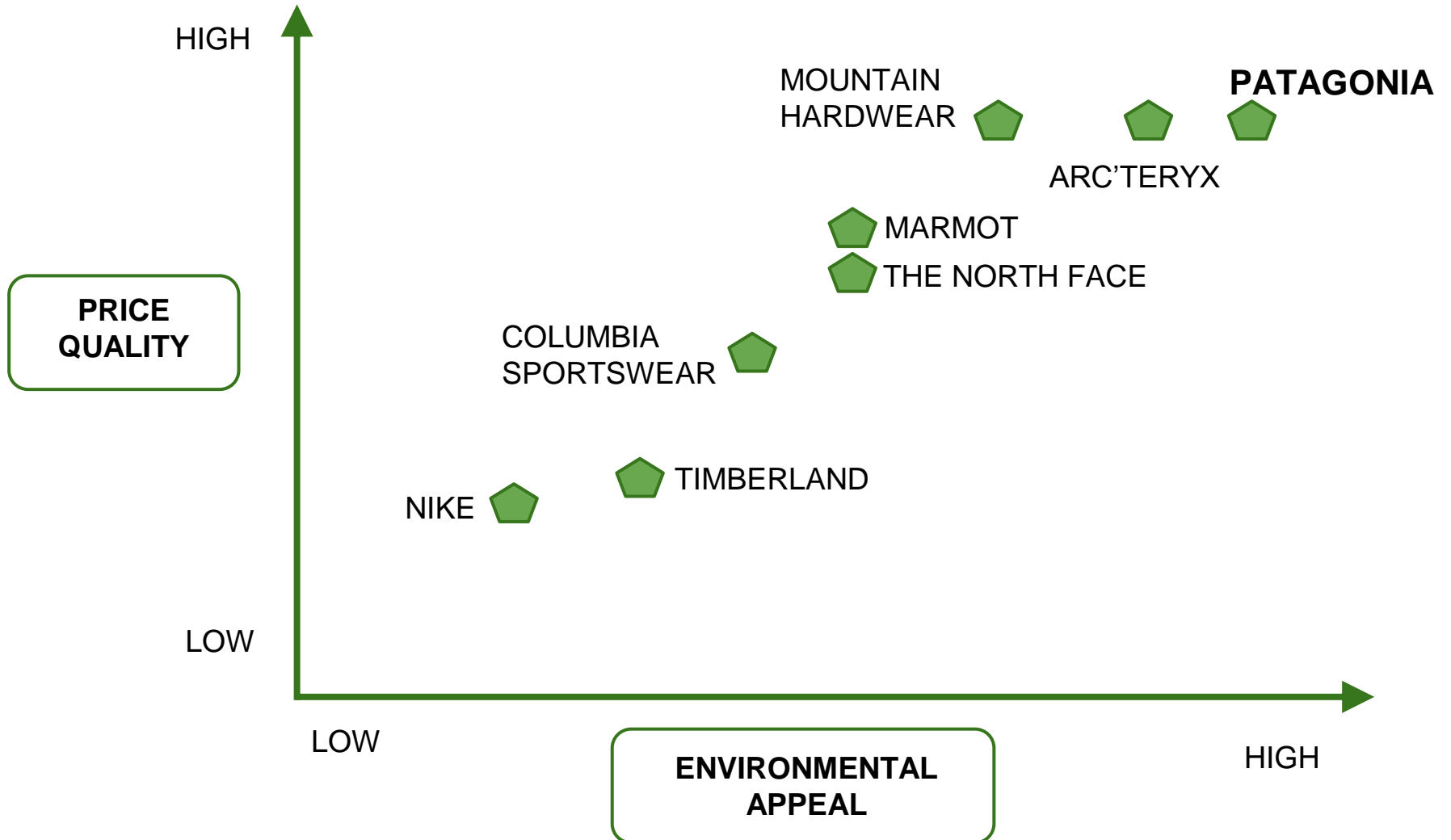


# INDUSTRY TRENDS

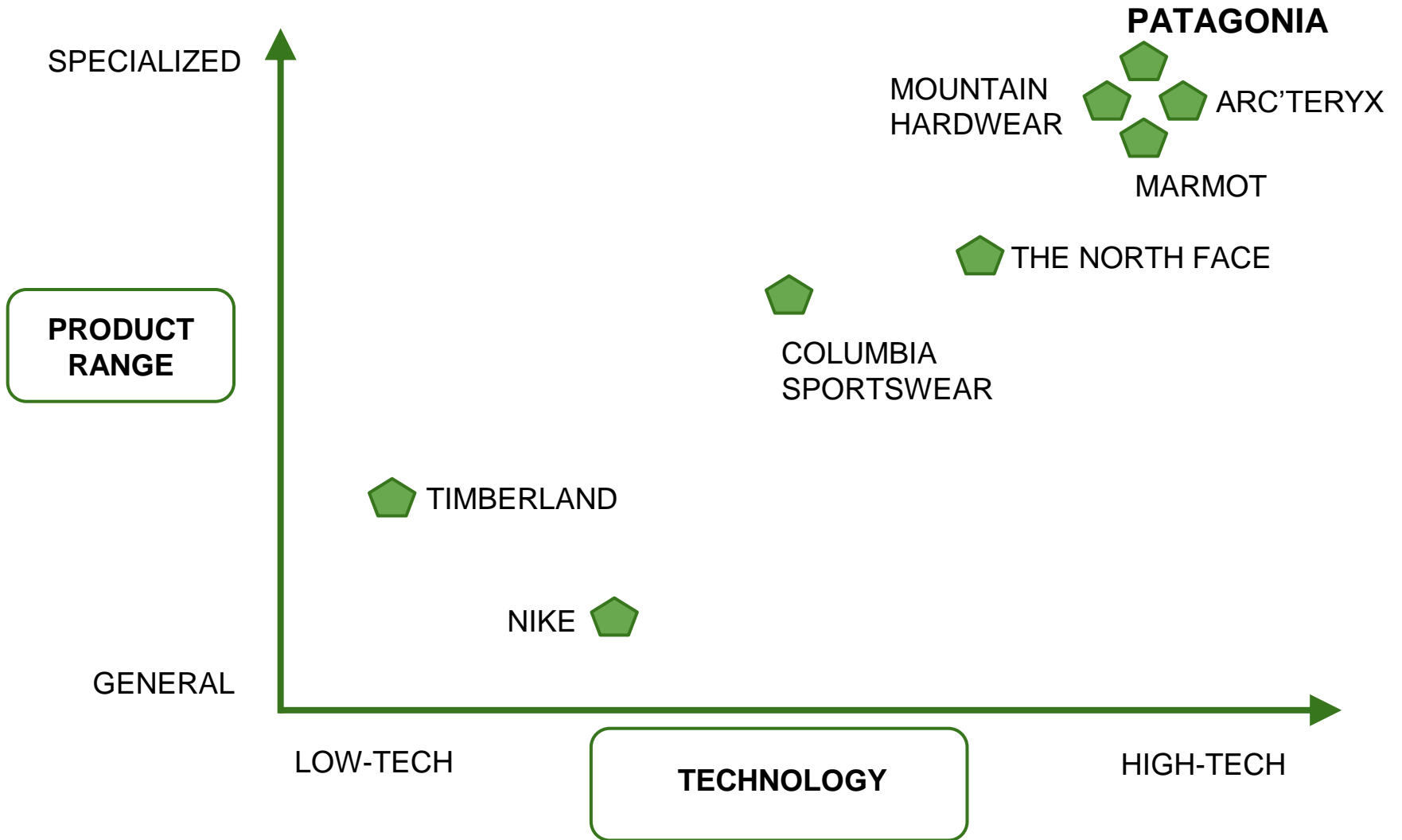


- Layering and integrated systems
- Streetwear and youth culture influence
- Environmental and sustainability initiatives, e.g. using organic cotton
- Consolidating retailers and fast-growing competitors in outdoor apparel industry
- Increased use of e-commerce channels as consumers increasingly shop online

# COMPETITION



# COMPETITION





# SUMMARY OF OPPORTUNITIES AND THREATS



## Opportunities

- Mainstream market demand for eco-products and high-tech products
- Potential for growth in international markets
- Increase in interest for outdoor activities

## Threats

- High-end products in recovering economy
- Dependency on suppliers for specialized materials
- Imitation from competitors
- Big budget competitors
- Radical views can alienate certain customers

A man is captured in mid-air, floating horizontally against a clear blue sky. He is shirtless, wearing dark pants and sneakers. Above him is a large, textured rock overhang. In the background, a range of mountains is visible under a bright sun that creates a lens flare effect. The overall scene conveys a sense of freedom and adventure.

# INTERNAL ANALYSIS

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# CUSTOMER ANALYSIS

## TARGET MARKET

- 38 year old “dirtbag” with household income of \$160,000

## CUSTOMER RETENTION

- Near 100% satisfaction guaranteed
- Customer contributions to environment

## CUSTOMER ACQUISITION

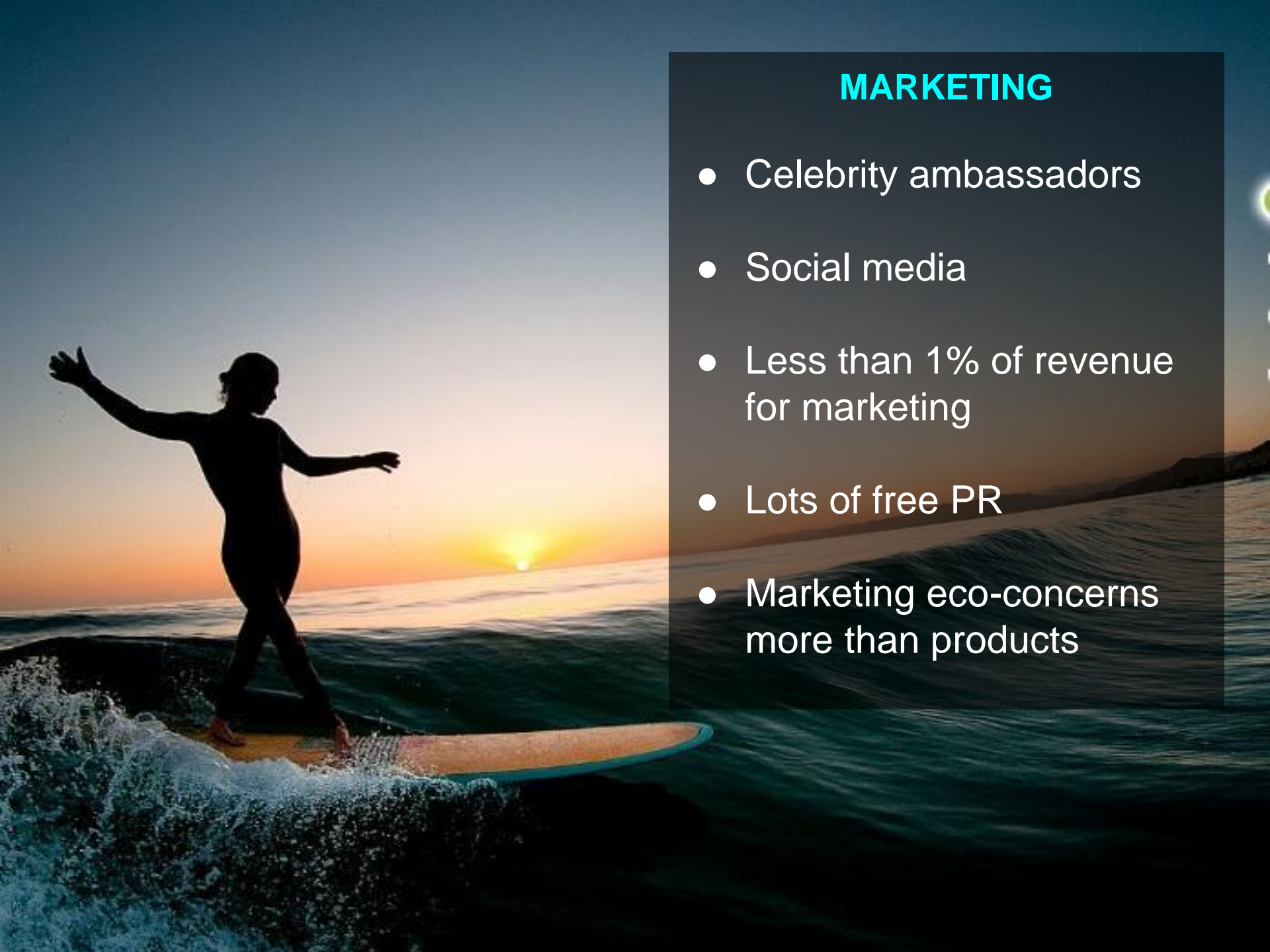
- Ads for Patagonia promote their environmental concerns, not always their products
- Great PR for their efforts



## INNOVATION

- 1% of revenues for R&D
  - Industry leader in tech innovation
  - More durable fabric and 100% recyclable zippers
- Patents for Synchronilla, Capilene, and chlorine free wool





## MARKETING

- Celebrity ambassadors
- Social media
- Less than 1% of revenue for marketing
- Lots of free PR
- Marketing eco-concerns more than products

# PATAGONIA ADVERTISING

THE REAL GOLD MINE  
IS ALREADY HERE.  
TELL THE EPA TO KEEP  
BRISTOL BAY'S  
WATERSHED JUST  
THE WAY IT IS.  
ACT TODAY TO STOP  
THE PEBBLE MINE

[WWW.SAVEBRISTOLBAY.ORG/TAKE ACTION](http://WWW.SAVEBRISTOLBAY.ORG/TAKE ACTION)



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## CORPORATE CULTURE

- Surf conditions written on board daily
- Employees take time off work if tide is up
- 2 months paid leave to work on environmental causes of their choice
- \$2000 subsidy for buying a hybrid car
- Bail money for those arrested in nonviolent activism for enviro causes
- Travelling to Patagonia, Chile, to help create a national park

## CORPORATE SOCIAL RESPONSIBILITY

### Donations to external organizations

- One Percent for the Planet
- \$200,000 in-kind donations annually
- Donation of AmEx ad proceeds to 4 environmental groups

### Internal operations

- Eco-friendly production
- Eco-friendly suppliers/dealers
- Eco-friendly buildings
- Corporate Culture
- The Footprint Chronicles
- Common Threads Initiative
  - recycle
  - repair



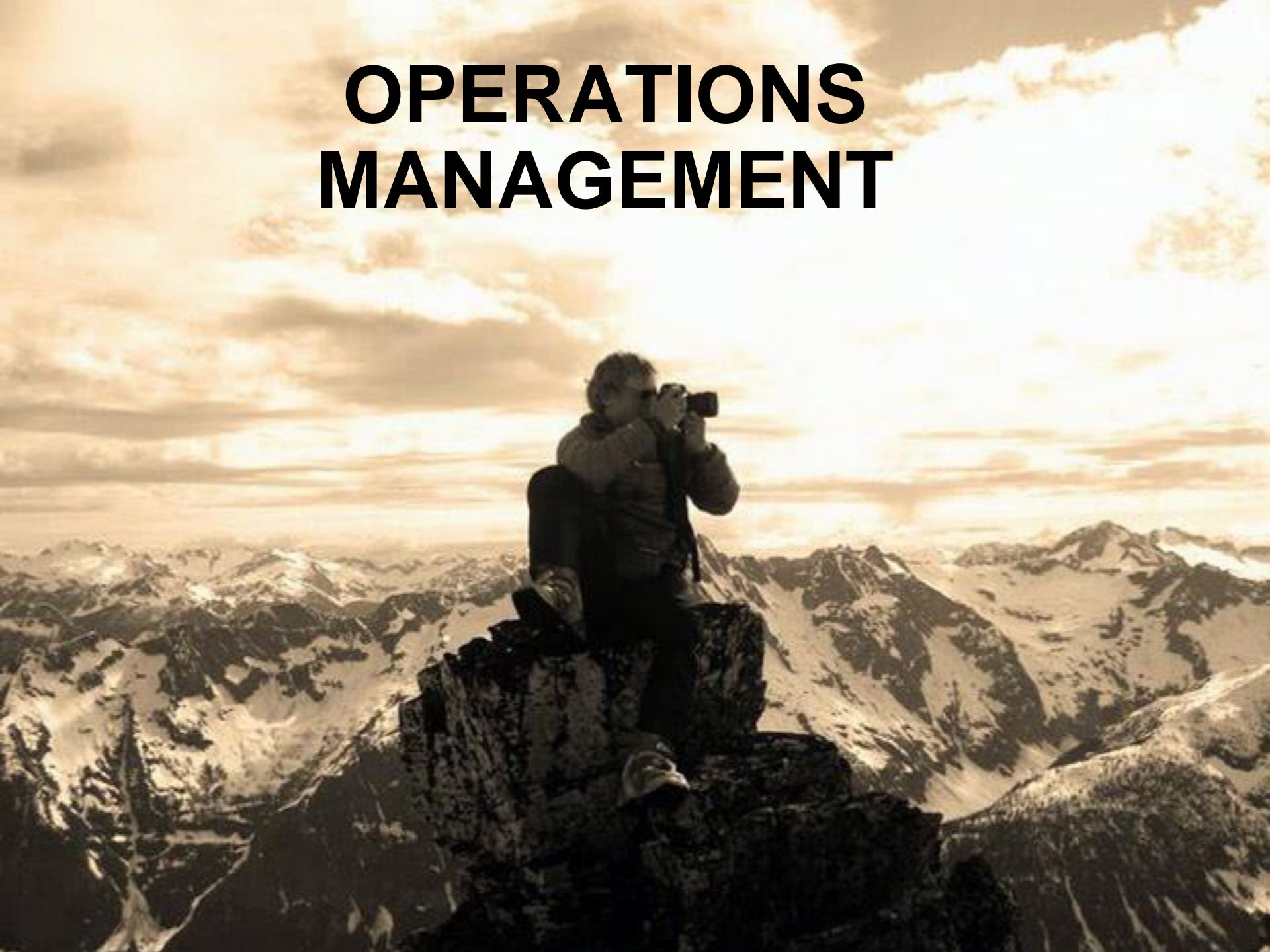


A woman with long brown hair, wearing a black wide-brimmed hat and a dark grey zip-up jacket, is smiling and holding up two red puffer jackets. The jackets have a bright green interior lining. She is standing in front of a wooden wall with several circular portholes. The scene is brightly lit, suggesting an indoor or well-lit outdoor setting.

## COMPETITIVE ADVANTAGE

- Most eco-friendly
- Only company to repair
  - They own the largest repair facility in North America
- Leaders of tech innovation
- Patents for creations
- Free media exposure

# **OPERATIONS MANAGEMENT**





## **SUPPLIERS**

- Chosen based on environmental + social responsibility
- Down to 41 from 200
- Inventory management issues: shortages

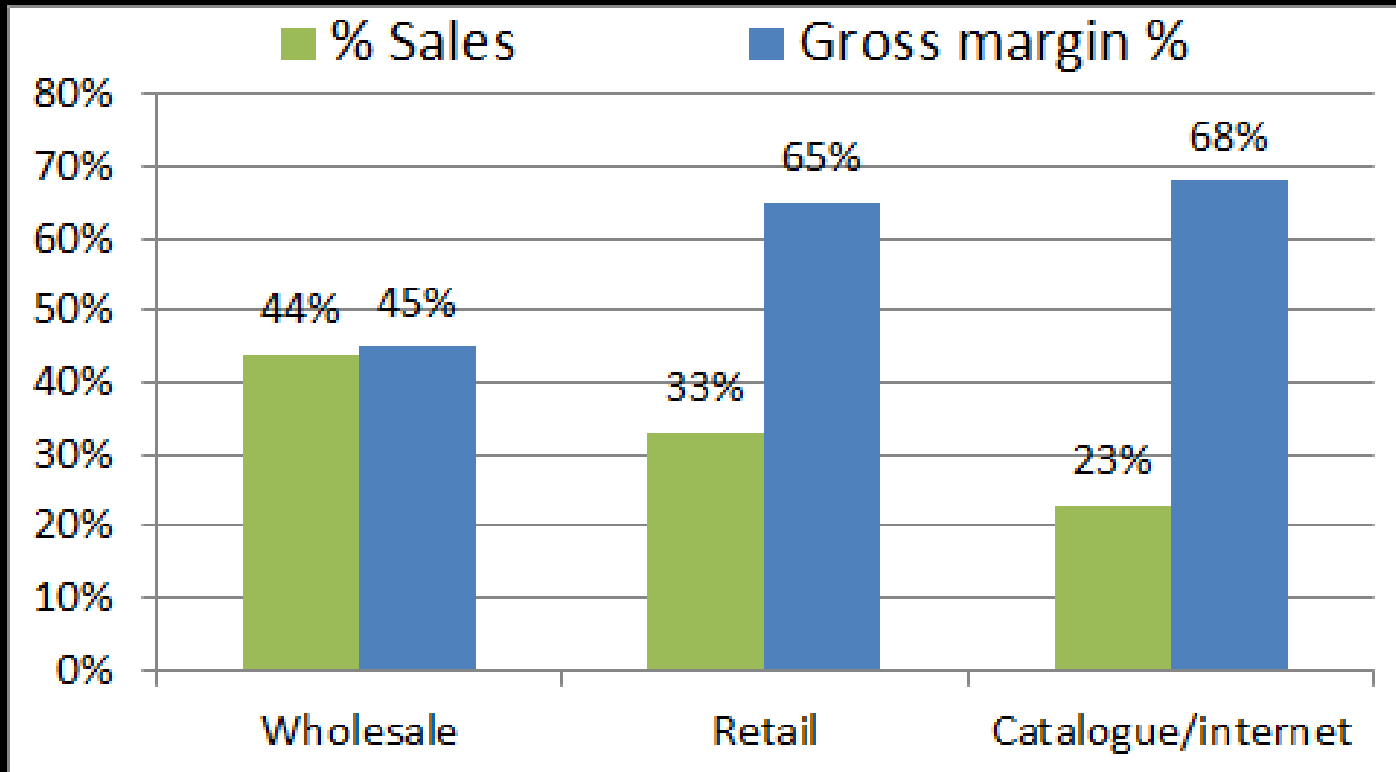
## **PRODUCTION**

- Focus on reducing footprint
  - packaging, dye, anti-odor chemicals, organic cotton

## **DISTRIBUTION**

- Distribution/ service center in Reno, Nevada
- About 1000 dealers, mostly small single-store retailers and national chains

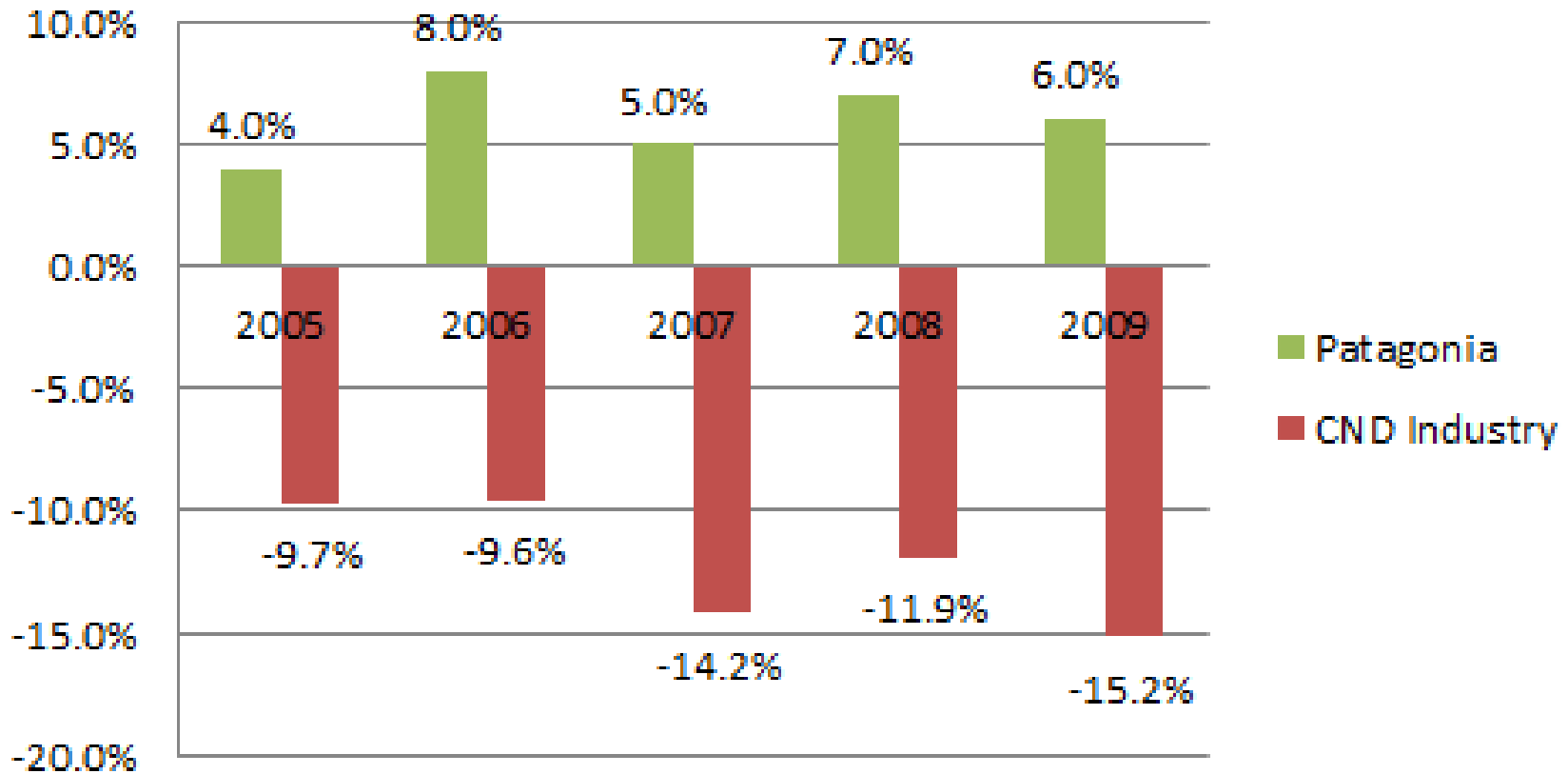
# HIGHEST SALES FROM LOWEST MARGINS CHANNEL



**OPPORTUNITY TO OPTIMIZE DISTRIBUTION CHANNELS**

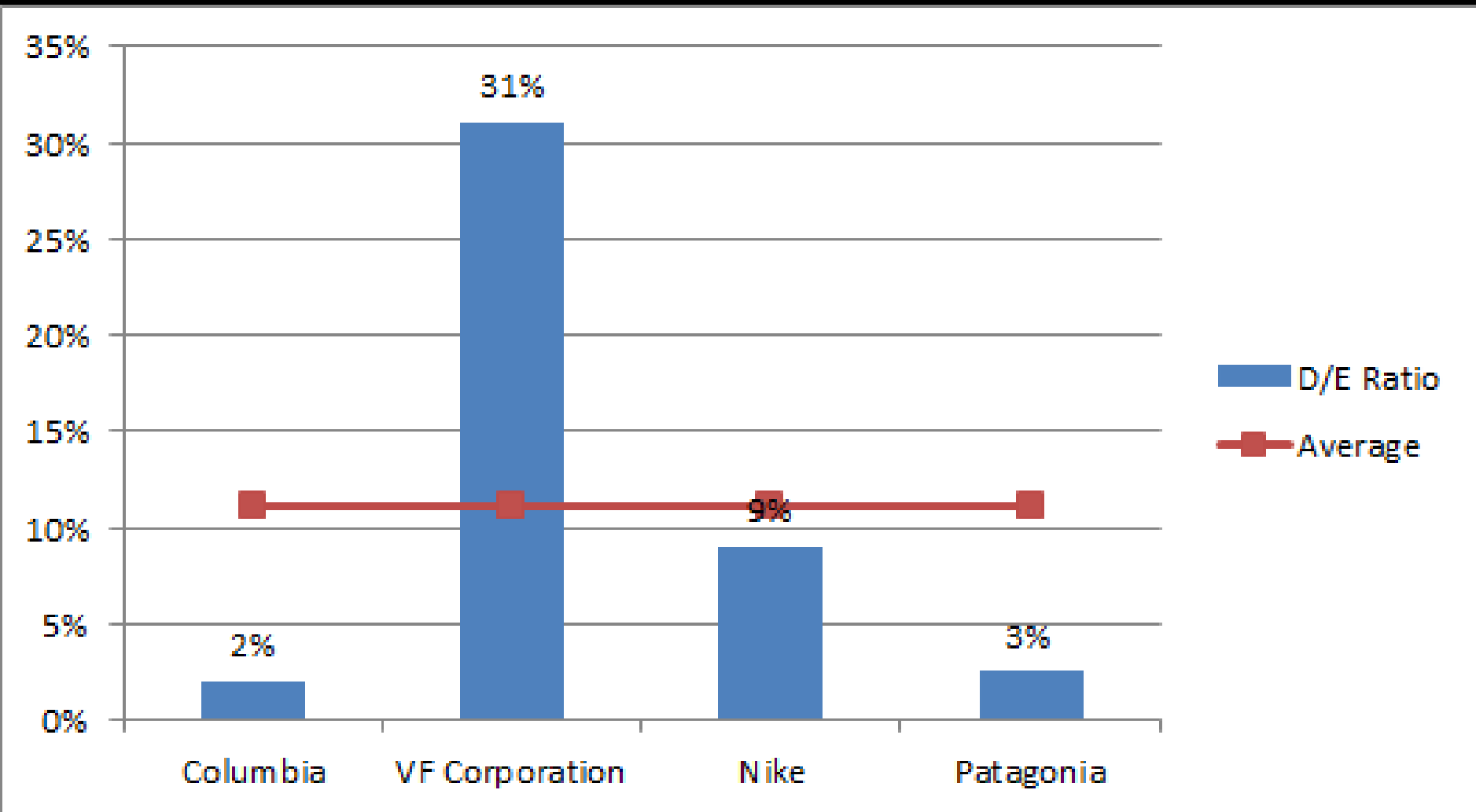
# OUTPERFORMING THE INDUSTRY

## YoY % Revenue Growth



**HISTORICALLY NEVER ACHIEVED 10% GROWTH**

# 4 TIME BELOW AVERAGE D/E RATIO



**INCREASING DEBT TO AVERAGE COULD YIELD \$15M IN CAPITAL**

## STRENGTHS

- Reputation
- Free publicity
- Innovation
- Corporate culture
- Private company
- Little debt

## WEAKNESSES

- Brand awareness
- Governance
- Size
- Inventory
- Niche target market
- Most sales come from lowest margin channel

# PRODUCT LIFECYCLE INITIATIVE (PLI)

## 2005 - Pioneered Fabric Recycling

- Launched recycling program for technical fabrics

## 2010 - Enhance to “Product Lifecycle Initiative” (PLI)

- Tell customers not to buy new products
- Extend life & Repair

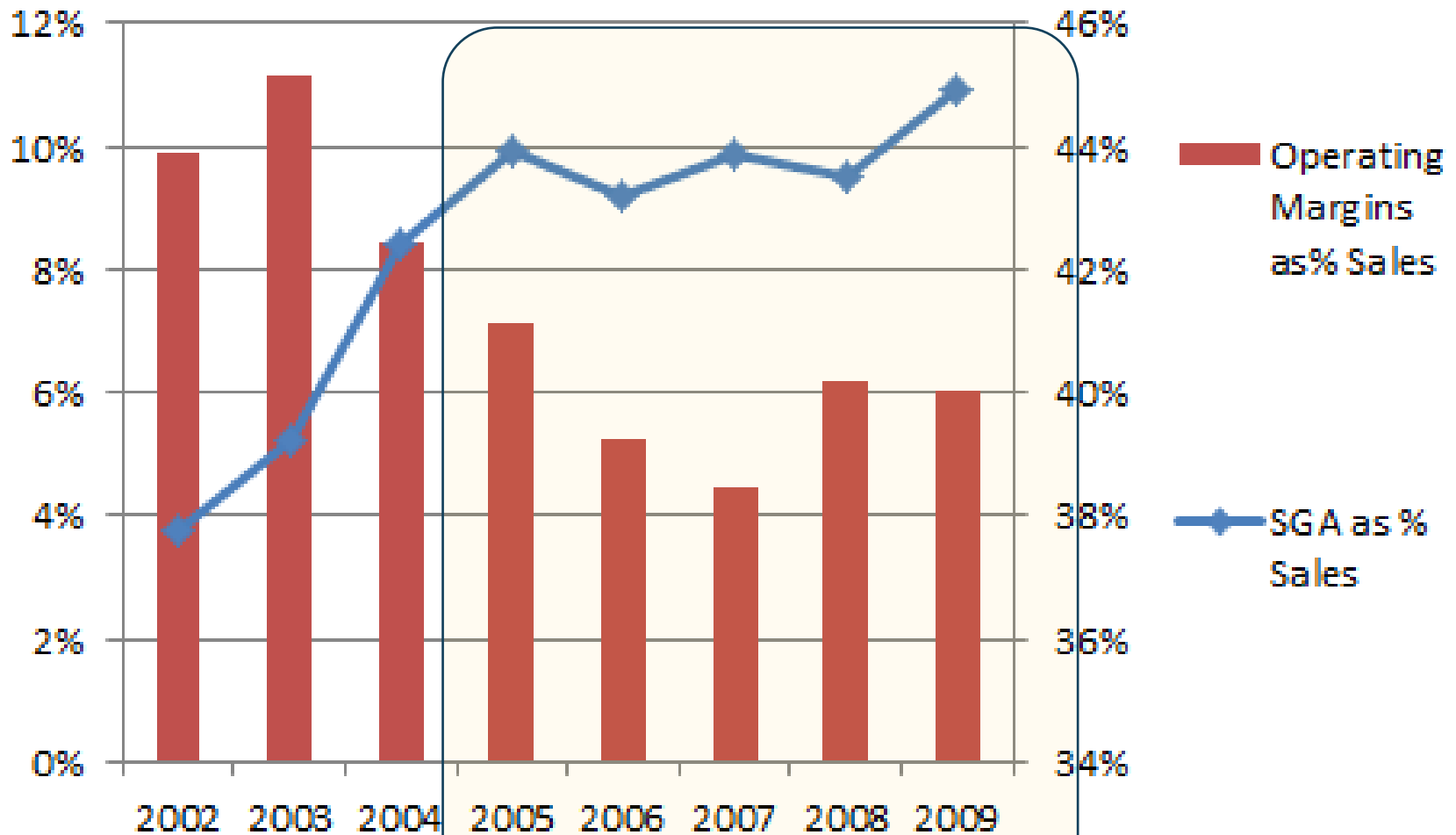


Not wearing  
that jacket  
anymore?

Bring It to  
**Common Threads**  
**Second Home**



# CONFLICT BETWEEN SUSTAINABILITY AND PROFITS



**NEED TO FOCUS ON KEEPING COSTS UNDER CONTROL**

# PROBLEM IDENTIFICATION AND ALTERNATIVE OPTIONS

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# PROBLEM IDENTIFICATION

- \* **Growing 10% while maintaining environmental culture**
- \* **Growth limited due to low brand awareness and inventory management**



# OPTION 1

## Do NOT move forward with PLI and Pursue Global Expansion to Asia and South America

### PROS

- Increase global presence and brand awareness
- Revenue focused strategy

### CONS

- High cost of implementation
- Long time for market penetration
  - Lack of experience in those markets
- Take focus away from Environmental Initiatives

## OPTION 2

# Move forward with PLI and Target new customer segment with 2nd hand swap market

### PROS

- New market segmentation- Increase in sales
- In line with company's vision
  - Reducing footprints
  - Reaching the mass market
- Ease of implementation

### CONS

- Possible decrease in sales of the existing products
- Hesitant to purchase 2nd hand products



## OPTION 3

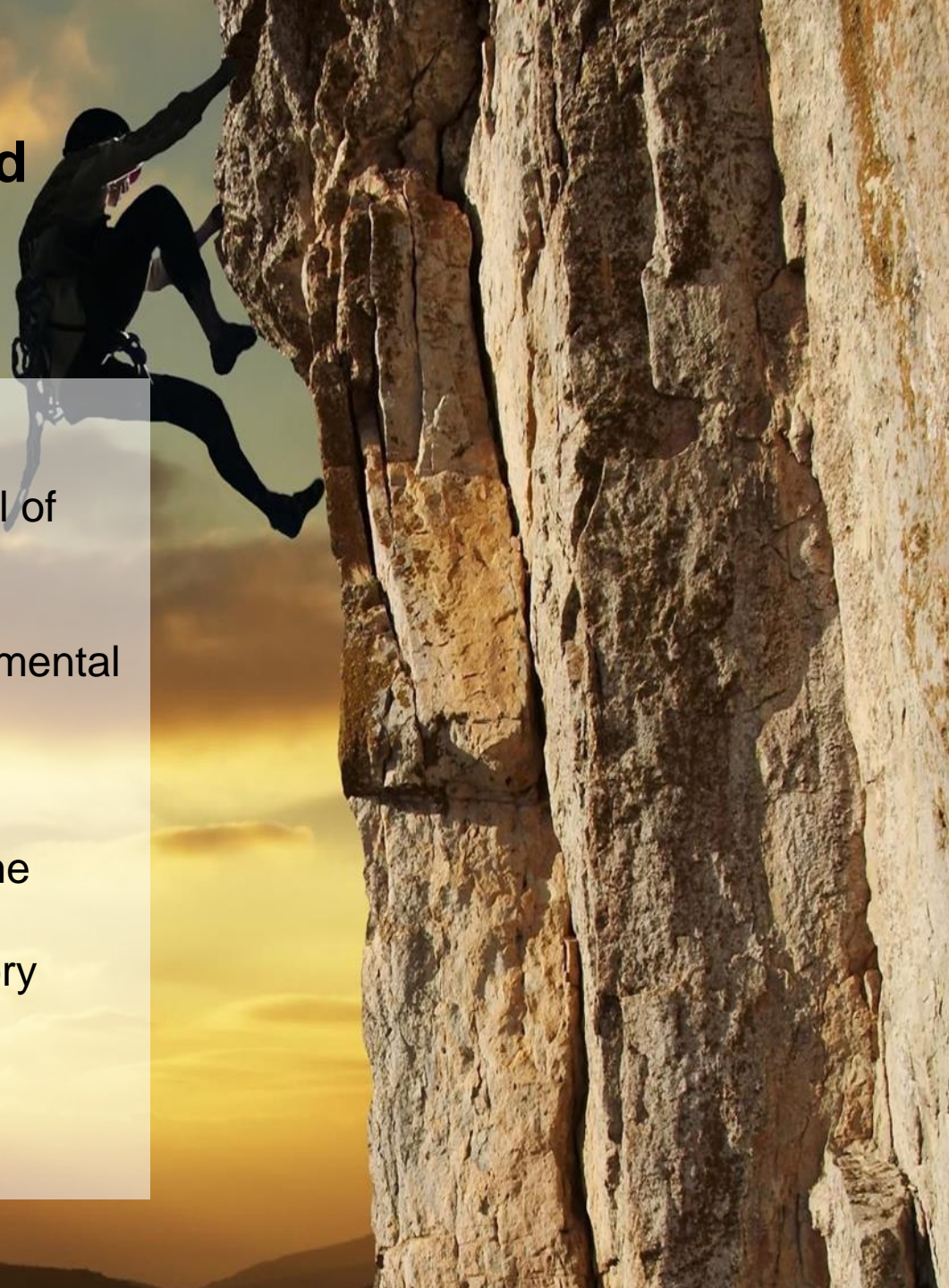
### Move forward with PLI and Create new, less expensive sub-brand

#### PROS

- New target market- High potential of growth in sales
- In line with company's vision
  - Higher awareness for environmental initiatives

#### CONS

- High Implementation cost and time consuming
  - Distribution channel & Inventory Management
  - Marketing
- High competition in the segment



## OPTION 4

# Decrease Environmental focus to concentrate on growth through expanded supply chain

### PROS

















- Increase in sales
- Decrease cost structure
- Ease of implementation
- Meeting the consumer demand
  - Inventory management + distribution channel

### CONS

- Against Corporate social responsibility values



# DECISION CRITERIA

	Global expansion	2nd Hand	Sub-Brand	Growth Focus
<b>ALIGNMENT WITH VISION</b>				
<b>GROWTH</b>				
<b>BALANCE</b>				
<b>EASE OF IMPLEMENTATION</b>				
<b>Total</b>	<b>9</b>	<b>17</b>	<b>14</b>	<b>12</b>



# RECOMMENDATION

## **Target new segment with 2nd hand swap market**

- Grow brand awareness
- Create entry level market
- Create a community

## **Move forward with PLI**

- Enhance environmental and sustainability image
- Blue ocean strategy

# DON'T BUY THIS JACKET



**patagonia**

Join us at [patagonia.com/commonthreads](https://patagonia.com/commonthreads)

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A pair of worn, brown leather hiking boots with black laces and soles, resting on a patch of green grass. The boots are positioned diagonally across the frame. The background is a soft-focus field of green grass and small white flowers. A semi-transparent dark grey box is overlaid on the right side of the image, containing text.

## PRODUCT LIFECYCLE INITIATIVES

### Program Mandates

- **REDUCE** - limit consumption to essentials, multifunctional
- **REPAIR** - highest quality, repairable, repair for other brands
- **REUSE** - online swap market, 2nd hand store, swap events, donation
- **RECYCLE** - return to Patagonia

# IMPLEMENTATION

## Strategic Partnerships

- Marketing: NGOs to help inform and educate customers
- Distribution: Sierra club
- Repairs: Retail outlets to pickup/dropoff

## Build 2nd Hand E-store

- Revenue share partnership with eBay
- Online swap market
- Appraisal and refurbishment service



# IMPLEMENTATION

- **PLI Integrated Marketing Communications**

- Objectives:

- i. To build awareness and community

- ii. To disseminate Information

- iii. To educate consumers

- Advertising and public relations

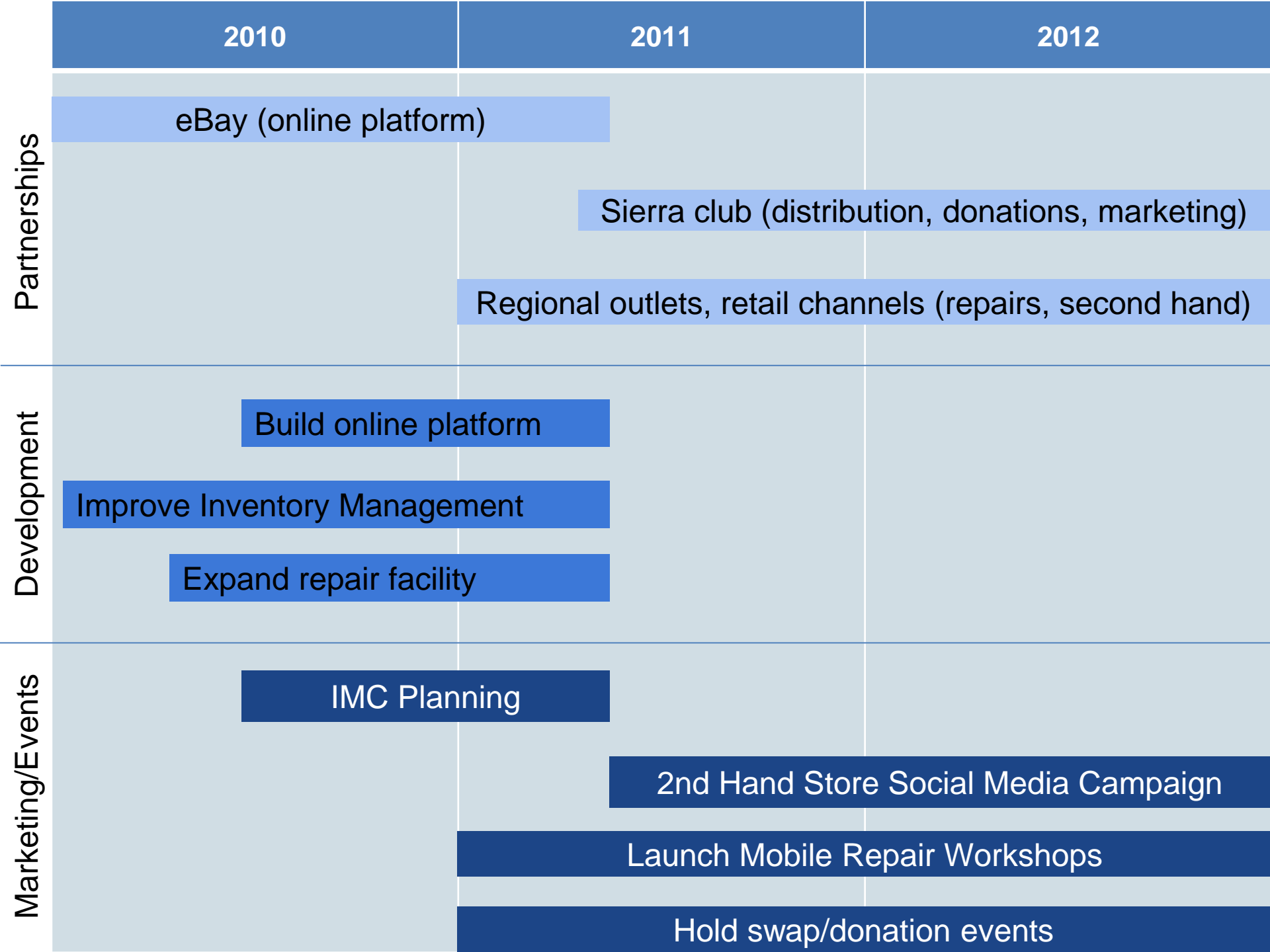
- Direct: repair workshops/van tour, send DIY repair kits

- Internet: social media, youtube videos, online forums, blogs

- **Improve Inventory Management**

- **Governance**

- Integrate independant board members to keep vision in check



# Costs / Benefits

One time cost: \$1.2M

Capital investment (debt to inventory): \$4.6M

Ongoing costs: \$1.1M

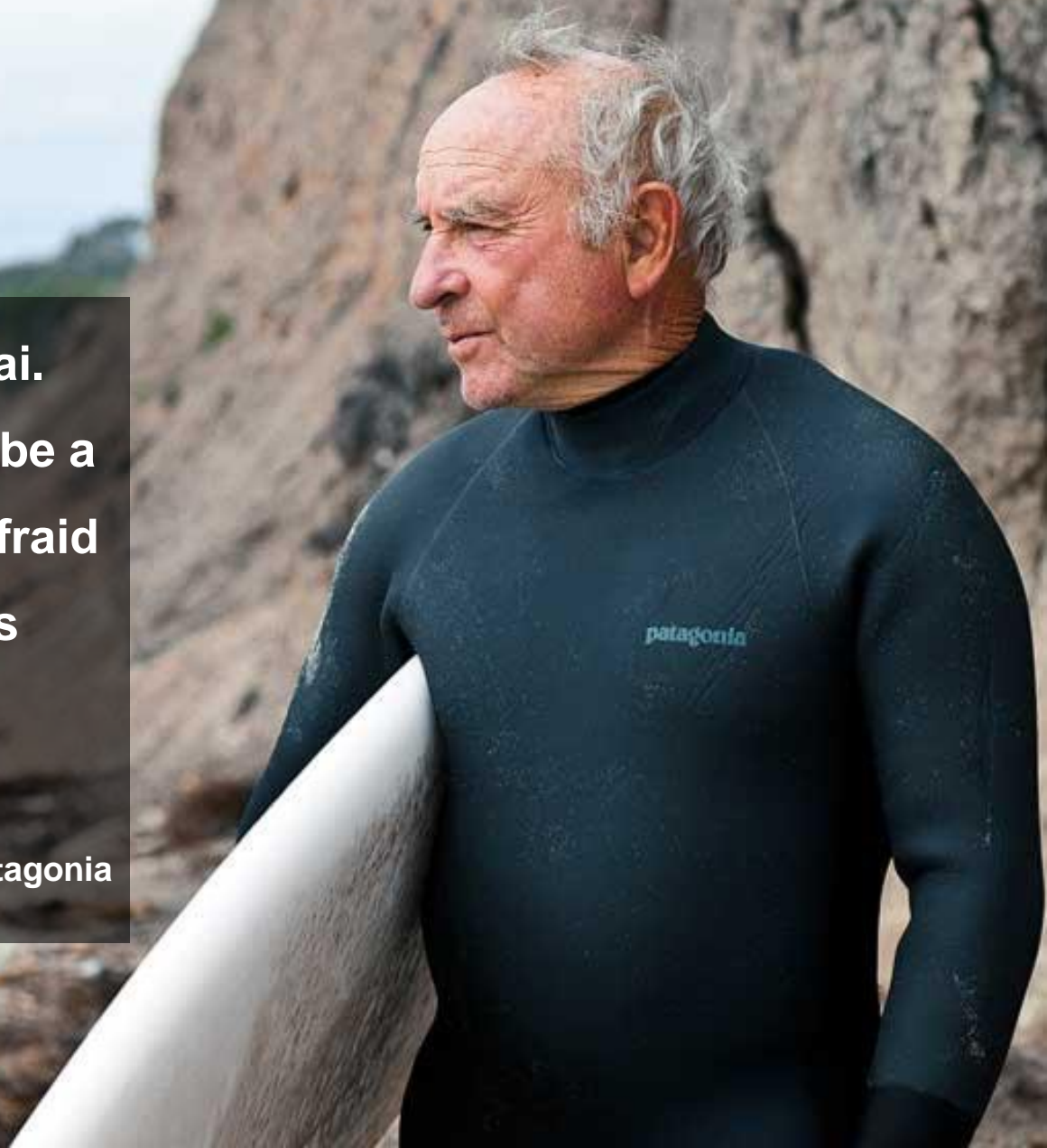
Additional increase in sales: \$12.9M (10%)



# Questions?

**“I’m kind of like a Samurai.  
They say if you want to be a  
Samurai, you can’t be afraid  
of dying, and as soon as  
you flinch, you get your  
head cut off”**

**- Yvon Chouinard, Founder, Patagonia**





# APPENDIX

## MANAGEMENT








- Privately owned by Lost Arrow Corporation
- High CEO turnover

## HUMAN RESOURCES

- Dirtbag employees
- Eco-friendly staff
- Less than 5% turnover
- Voted best company to work for



# COMPETITION

COMPANY	STRENGTH	WEAKNESS	STRATEGY
	<ul style="list-style-type: none"> <li>• Brand power</li> <li>• Distribution Network</li> <li>• Large corporate resources</li> </ul>	<ul style="list-style-type: none"> <li>• No product specialization</li> <li>• Low-tech</li> <li>• No environmental appeal</li> </ul>	<ul style="list-style-type: none"> <li>• Full Market Coverage</li> <li>• Large distribution network</li> <li>• Cost leadership</li> <li>• Brand recognition</li> </ul>
	<ul style="list-style-type: none"> <li>• Distribution network</li> <li>• Wide market coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Low differentiation</li> <li>• No product specialization</li> <li>• Low-tech</li> </ul>	<ul style="list-style-type: none"> <li>• Wide market coverage</li> <li>• Cost leadership</li> </ul>
	<ul style="list-style-type: none"> <li>• Specialized products</li> <li>• Parent company support</li> </ul>	<ul style="list-style-type: none"> <li>• Low brand power</li> <li>• Weak environmental appeal</li> </ul>	<ul style="list-style-type: none"> <li>• Product specialization</li> <li>• High price/quality</li> </ul>
	<ul style="list-style-type: none"> <li>• Brand power</li> <li>• Large corporate resources</li> <li>• Market leader</li> </ul>	<ul style="list-style-type: none"> <li>• Not focused on specialization</li> <li>• Weaker environmental appeal</li> </ul>	<ul style="list-style-type: none"> <li>• Broad product range</li> <li>• Large distribution network</li> <li>• Brand awareness</li> </ul>
 <p>ARC'TERYX</p>	<ul style="list-style-type: none"> <li>• Specialized products</li> <li>• Environmental appeal</li> </ul>	<ul style="list-style-type: none"> <li>• Low brand power</li> </ul>	<ul style="list-style-type: none"> <li>• Product specialization</li> <li>• High price/quality</li> </ul>
	<ul style="list-style-type: none"> <li>• Multi-product offering</li> <li>• Wide market coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Caters to mainstream, casual consumers</li> <li>• No environmental appeal</li> </ul>	<ul style="list-style-type: none"> <li>• Mainstream casual appeal</li> <li>• Develop a few key apparel lines</li> </ul>
	<ul style="list-style-type: none"> <li>• Specialized products</li> <li>• High-quality</li> </ul>	<ul style="list-style-type: none"> <li>• Weak environmental appeal</li> <li>• Brand awareness</li> </ul>	<ul style="list-style-type: none"> <li>• Product specialization</li> <li>• High price/quality</li> </ul>

## Increase in Capital (All in M\$)

Long term debt @ 2.5% D/E	4.6
LTD w/ 11.1% D/E Ratio	20.5
<b>Additional Capital</b>	<b>15.9</b>

# COSTS - Details

Item	Details	One Time Cost	Ongoing Cost
<b>Partnerships</b>			
	Hire Partnership Manager	20	100
	Repair transport		60
<b>Development</b>			
Online platform			
	Hire product Manager	20	100
	Development costs (Shared)	1000	
	Infrastructure maintenance		100
Repair Facility Expansion			
	Move	30	
	Incremental rent		100
	4 new staff		200
<b>Marketing</b>			
	Online marketing manager	20	100
	Social media campaign	40	
	Mobile repair workshops		50
Swap events			
	Coordinator + Staff	20	200
	Logistics/transport	50	100
<b>Total</b>		<b>1200</b>	<b>1110</b>

## Revenues - Details

Swap platform & Events (2% sales)	\$	6,657
Additional 2% sales growth from marketing	\$	6,290.44
Net incremental	\$	12,948

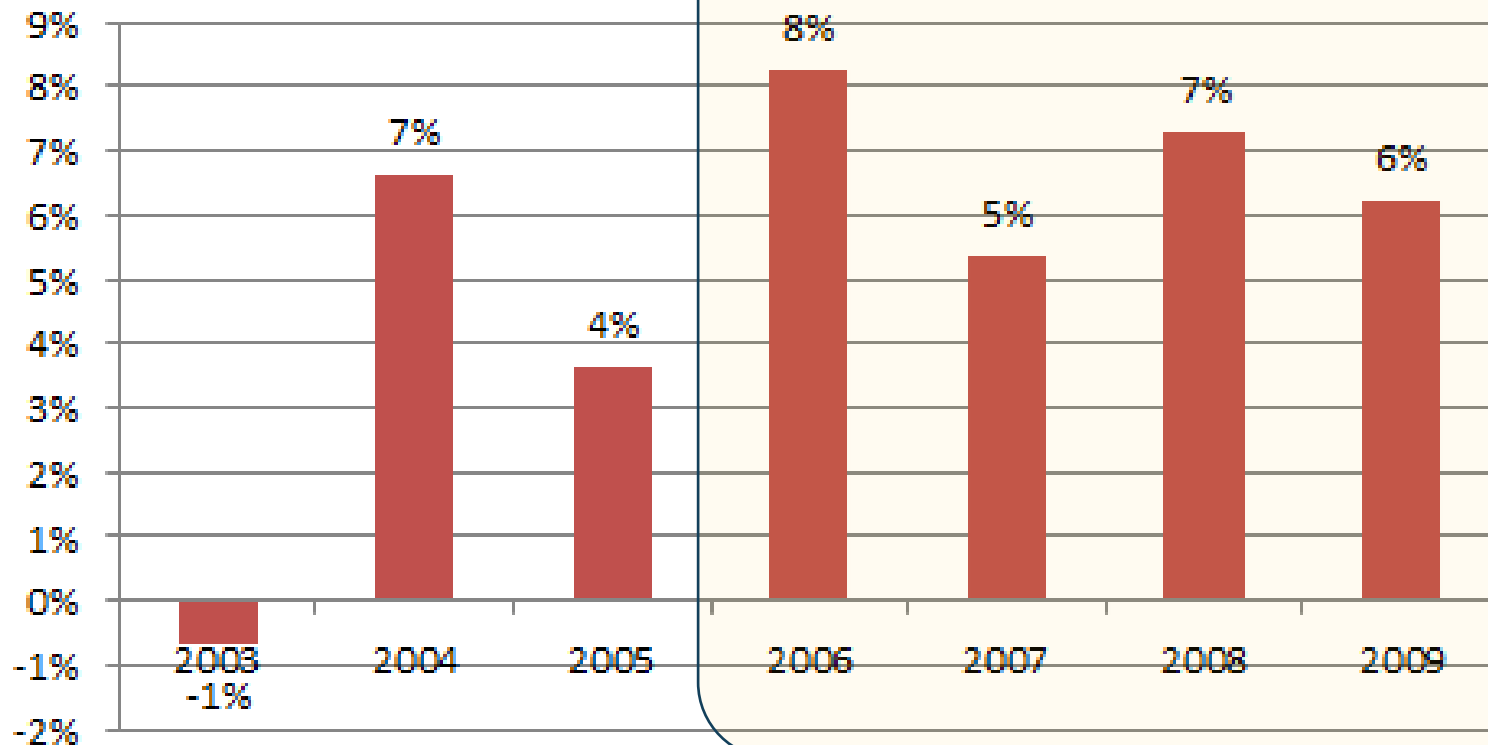
	ORIGINAL		NEW
	2009	2010	2010
Sales	\$ 314,522	\$ 332,862	\$ 345,810
Growth	6.0%	6.0%	10%

## Cost/ Expenses

- \$3.8 million for eco-friendly commitment in 2009
- \$100k annually on field testing
- \$350k to repair 12k garments/yr = \$29 per garment
- Less than 1% revenues on marketing
- 1% revenues on environmental causes
- \$200k in kind donations to eco-causes

# INTRODUCTION OF RECYCLING PROGRAM DID HAVE A POSITIVE IMPACT ON SALES

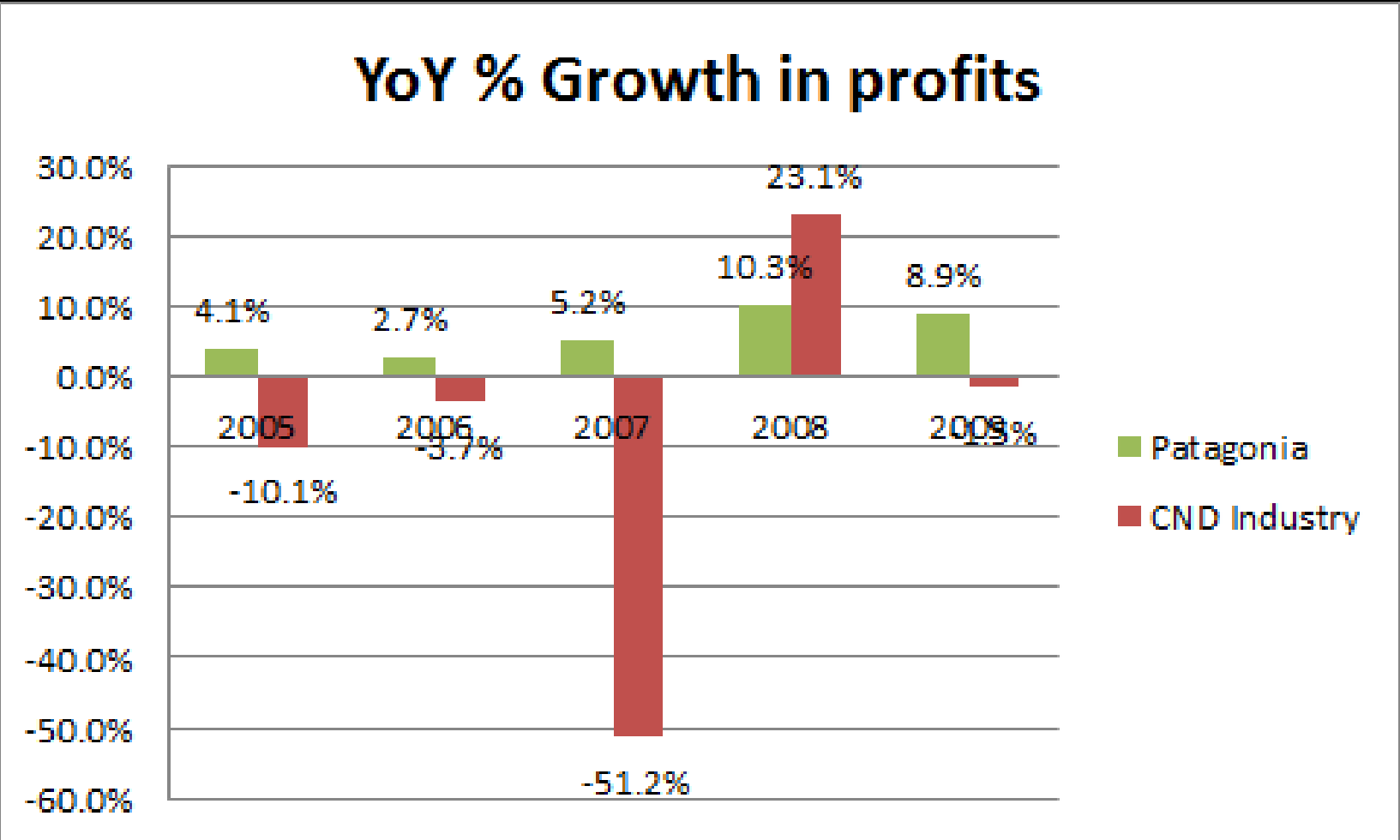
## % Sales Growth



**PROGRAM ENHANCEMENT HAS THE POTENTIAL TO FUEL TOP LINE GROWTH**



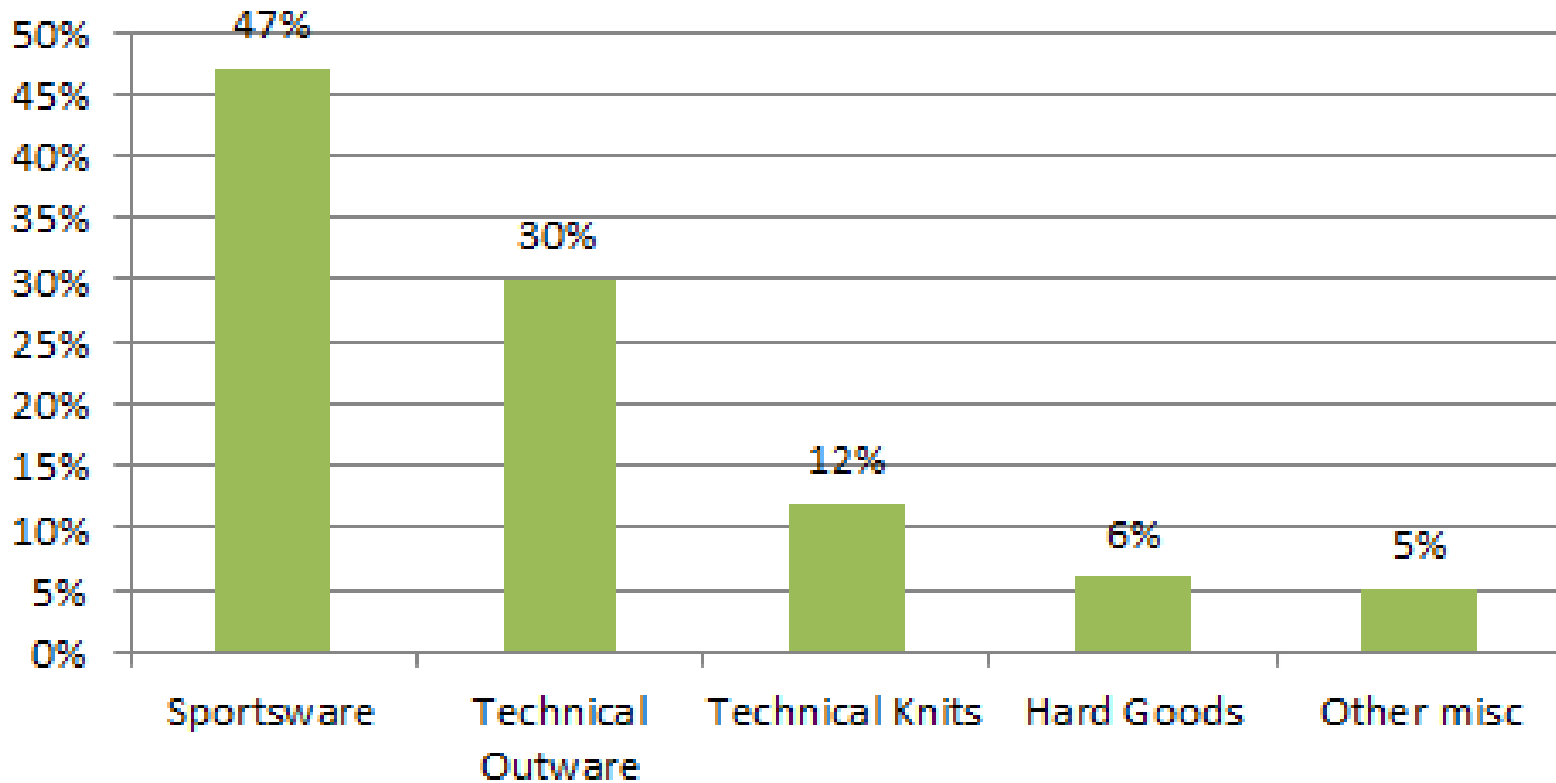
# PATAGONIA HAS BEEN OUTPERFORMING ITS INDUSTRY



**ABLE TO PROTECT PROFITS EVEN DURING RECESSIONARY TIMES**

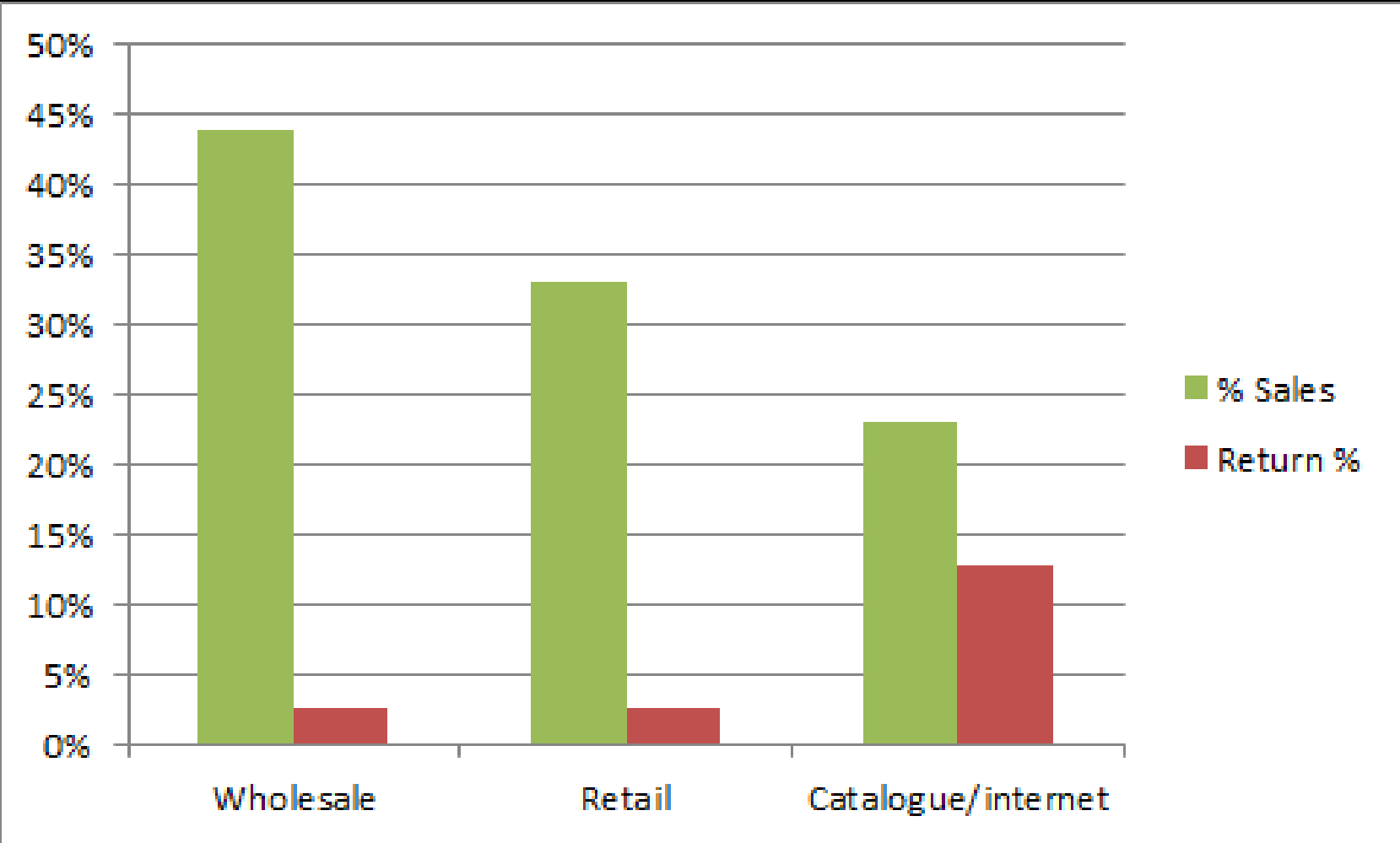
# VAST MAJORITY OF REVENUES COMES FROM 3 MAJOR PRODUCT LINES

## Contribution Margin

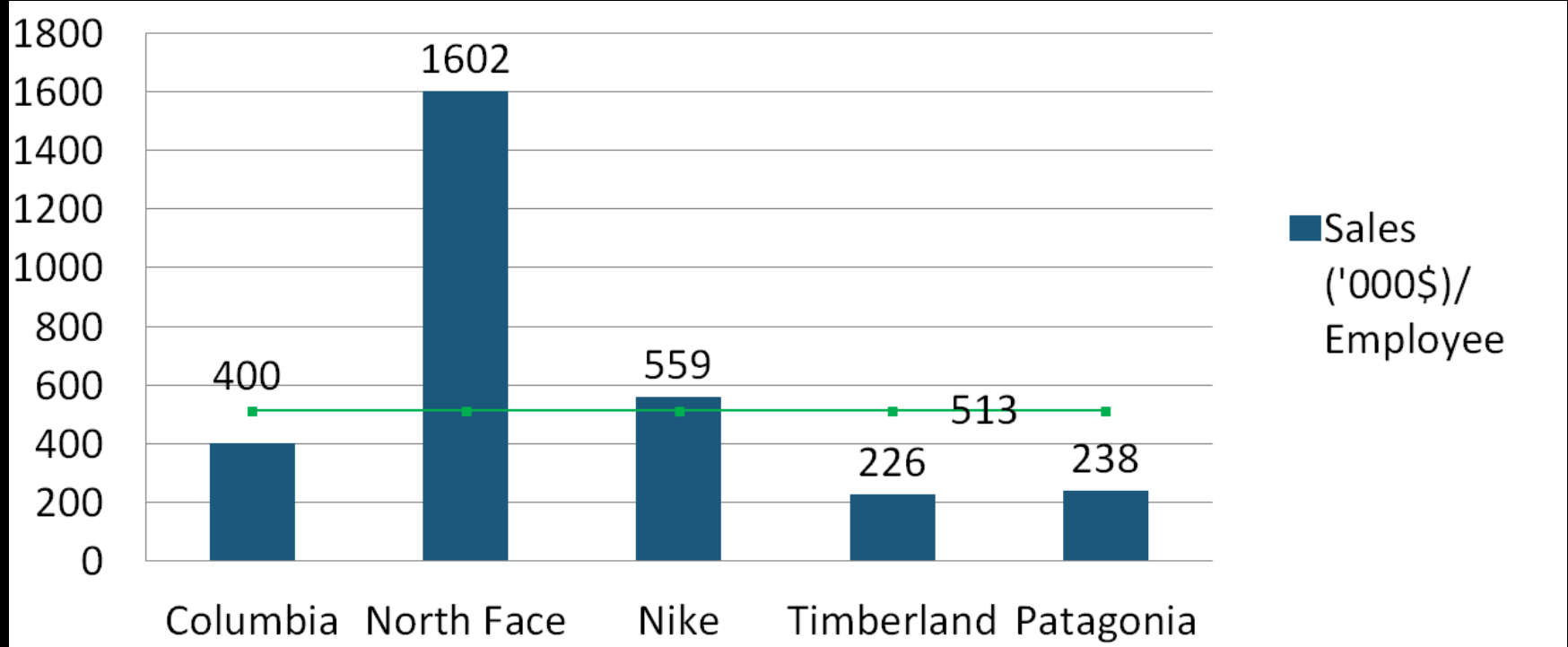


**POTENTIAL TO RATIONALIZE PRODUCTS IN ORDER TO ENHANCE INVENTORY MANAGEMENT**

# Heaviest returns from direct sales channel



# Patagonia has some of the lowest sales per employees in its industry



# Recommendation

	<b>Costs</b>	<b>Benefits</b>
Reduce	<ul style="list-style-type: none"><li>● short-term sales and profitability</li></ul>	<ul style="list-style-type: none"><li>● high environmental impact</li><li>● enhance brand image</li><li>● blue ocean marketing</li></ul>
Repair	<ul style="list-style-type: none"><li>● cost for free shipping</li><li>● educating consumers about repair</li><li>● expand repair department capacity</li></ul>	<ul style="list-style-type: none"><li>● high environmental impact</li><li>● high-quality image</li><li>● reduced costs in returns (currently replace rather than repair)</li></ul>
Reuse	<ul style="list-style-type: none"><li>● administration of swap and donation events</li><li>● establish online swap market</li><li>● marketing communications</li></ul>	<ul style="list-style-type: none"><li>● targeting a different market segment</li><li>● increased brand awareness</li><li>● creating a brand community</li></ul>
Recycle	<ul style="list-style-type: none"><li>● increase staff and storage capacity</li><li>● cost for free shipping</li></ul>	<ul style="list-style-type: none"><li>● reduce landfill waste</li></ul>

# Cost Mitigation Strategies

	<b>Costs</b>	<b>Cost Mitigation</b>
Reduce	<ul style="list-style-type: none"> <li>• short-term sales and profitability</li> </ul>	<ul style="list-style-type: none"> <li>• long-term gains in market growth and market share</li> </ul>
Repair	<ul style="list-style-type: none"> <li>• cost for free shipping</li> <li>• educating consumers about repair</li> <li>• expand repair department capacity</li> </ul>	<ul style="list-style-type: none"> <li>• establish regional partnerships for logistics (e.g. MEC)</li> <li>• limit repairs for other brands</li> </ul>
Reuse	<ul style="list-style-type: none"> <li>• administration of swap and donation events</li> <li>• establish online swap market</li> <li>• marketing communications</li> </ul>	<ul style="list-style-type: none"> <li>• partnering with eBay for online market</li> <li>• allow other brands for swapping</li> <li>• take a small % of sales</li> <li>• partner with Sierra Club</li> </ul>
Recycle	<ul style="list-style-type: none"> <li>• increase staff and storage capacity</li> <li>• cost for free shipping</li> </ul>	<ul style="list-style-type: none"> <li>• establish regional partnerships for logistics (e.g. MEC)</li> </ul>



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FOUNDED 1892

# **Product Lifecycle Initiative**

**“The company’s history showed that making decisions in favor of environmental reasons always proved to be a good business in subsequent year”.**