PATAGONIA

Objective for future: reach 10% annual growth while implementing product lifecycle initiative.

INTERNAL ANALYSIS

**Supply side**

* 41 suppliers worldwide in 2010 (down from 200 in 2003).
* Suppliers are chosen based on value, not based on commercial efficiency.
* Dealers and suppliers are expected to join the One Percent for the Planet
* Patagonia believes that the selection of suppliers has lowered defect rates of its products

**Production**

* Cost of fabric is 10-15% higher than industry norms
* 85% of manufacturing outsourced outside of US for cheaper labor costs.
* Distribution center in Nevada: packaging and shipping of all products, and a service center for repairing, replacing and refunding customers.
* Much lower return rates than industry standards

**Distribution**

* 900-1,000 dealers
* small, single-store retailers and national chains
* competition distributes to 4,000 dealers, including department store chains and other mass-market retailers

**Risk evaluation**

- Operating risk: shortage of inventory caused an inability to satisfy existing demand for products.

**Cost**

* $350,000 to repair 12,000 garments annually
* Less than 1% on marketing
* 1% of sales to environmental causes
* $200,000 of in-kind donations to environmental causes

**Customer selection**

* Target market: Average 38 years old with household income of $160,000.
* “dirtbags” who love to be active

**Customer acquisition**

* The company is clear about its mission and communicates it well through its public efforts to be environmentally conscious.
* Being publicly and intensively active in environmentally conscious operations is attractive to customers.
* Marketing is not used to target and acquire customers. Less than 1% of revenues is spent on advertising, and that’s to promote its eco-friendly actions, not its products.
* The marketing strategy can be challenging for customer acquisition because the ads make Patagonia look like a non-profit environmental organization, not a for-profit business selling outdoor equipment.
* Catalogs are only 60% sales, 40% outdoor lifestyle information. Competition’s catalogs are 90-95% sales.

**Customer retention**

* Their near 100% satisfaction guaranteed policy can build customer loyalty.
* They are the only company to repair products.
* Their eco-friendly operations from head to toe also make it attractive for customers to stick with them. Customers get to contribute to environmental causes simply by being a Patagonia customer.
* Premium customer service is offered in relations to environmentally conscious actions.

**Customer growth**

* the product lifecycle initiative would be a contract between the company and its customers to reduce, repair and recycle the apparel that they consumed. Customers would be partners of the company in its efforts to be environmentally conscious. This builds a deeper relationship with its customer base.

**Innovation**

* They’re industry leaders in tech innovation: they invest 1% of revenues into R&D, including a lab to develop and test raw materials.
* They develop more durable fabrics and make zippers 100% recyclable.
* Patagonia pioneered many fabric adopted across the industry.
* Patents numerous technologies: Synchilla, Capilene, wetsuit lined with chlorine free wool for better insulation.

**Social responsibility**

* Every building owned by the company is eco-friendly: solar panels, energy efficient lighting, natural heating and cooling systems.
* Mostly vegetarian and organic cafeteria for staff
* Self imposed environmental tax of 1% of revenues.
* All operations are eco-friendly from start to finish
* Only operate with eco-friendly suppliers and dealers.
* Strong recycle program for customers to reduce overconsumption

**Human Resources**

* Dirtbag employees
* Environmentally concerned
* Entrepreneurial spirit

**Corporate culture**

* surf conditions written on the board daily
* employees take time off from work if the tide is up
* vegetarian and organic cafeteria
* eco-friendly office buildings
* paid sabbaticals up to 2 months to work on environmental causes of their choice
* $2,000 subsidy for buying a hybrid car
* bail money for those arrested during nonviolent activism for environmental causes.

**Leadership**

* family atmosphere
* off-site meetings in the mountain or ocean
* climbing together on weekends
* travelling to Patagonia, Chile, to help create a national park
* on site childcare facilities
* maternity and paternity leave offered

**Competitive Advantage**

* The most socially responsible company
* Patents for product innovation
* Setting industry standards with product advancements
* Marketing budget not as necessary since they get a lot of free press
* It’s difficult for anyone to replicate their level of devotion to environmental causes without affecting their margins.

**Strategy up to now**

* Focus on environmental impact of operations
* No tooting their own horn as environmental saints to increase sales
* Higher costs for environmental devotion

**Future growth and strategy**

* product lifecycle initiative

**Financials**

Current Ratio = CA/ CL = 200,233/61,150 = 3.27

Quick Ratio = (200,233 – 46,837)/ 61,150 = 2.50

Debt to total assets = 65,866/ 253,413 = 0.2599

Debt/Equity = 65,866 / 187,547 = 0.35

LTDebt / Equity = 4,716 / 187,547 = 0.025

Inventory turnover: Sales / Inventory = 332,862 / 46,837 = 7.1

Total assets turnover: sales/ total assets = 332,862 / 253,413 =

Gross profit margin = 52.6%

Operating profit margin = 8.1%

Sales growth = average 6%

Income growth = 9.3%