

Patagonia Case Assignment

MSOD 617

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Patagonia's "futuring" capability

Based on the case study provided, Patagonia is more values based than future based. They are less concerned about specific future scenarios and more focused on a values-based approach to their business, focused on sustainability.

"SMO's (Sustainable Managed Organizations) need to look at short-, medium, and long-term business horizon, and there is a specific purpose for each. The long-term view considers possible future strategic intents and the operating assumptions that will drive them whereas short-term futuring guides adjustments to the current strategic intent." (Lawler & Worley, 2011, Ch. 5, page 111/449-ibooks). While Patagonia appears to be looking for new technology to make their products even less impactful to the environment, they are not actively engaging in scenario sessions. They did bring up the fact that the generation that currently fits in their "core" is aging. They were bringing in "outside talent" to discuss which might imply disconnect on their part to longer-term need for change.

"SMO's focus their futuring process on three effectiveness areas: financial performance, social value, and the natural environment." (Lawler & Worley, 2011, Ch. 5, page 113/449-ibooks). Patagonia is focused on four: Quality, financial, social, and environment. They seem to have hit the mark here.

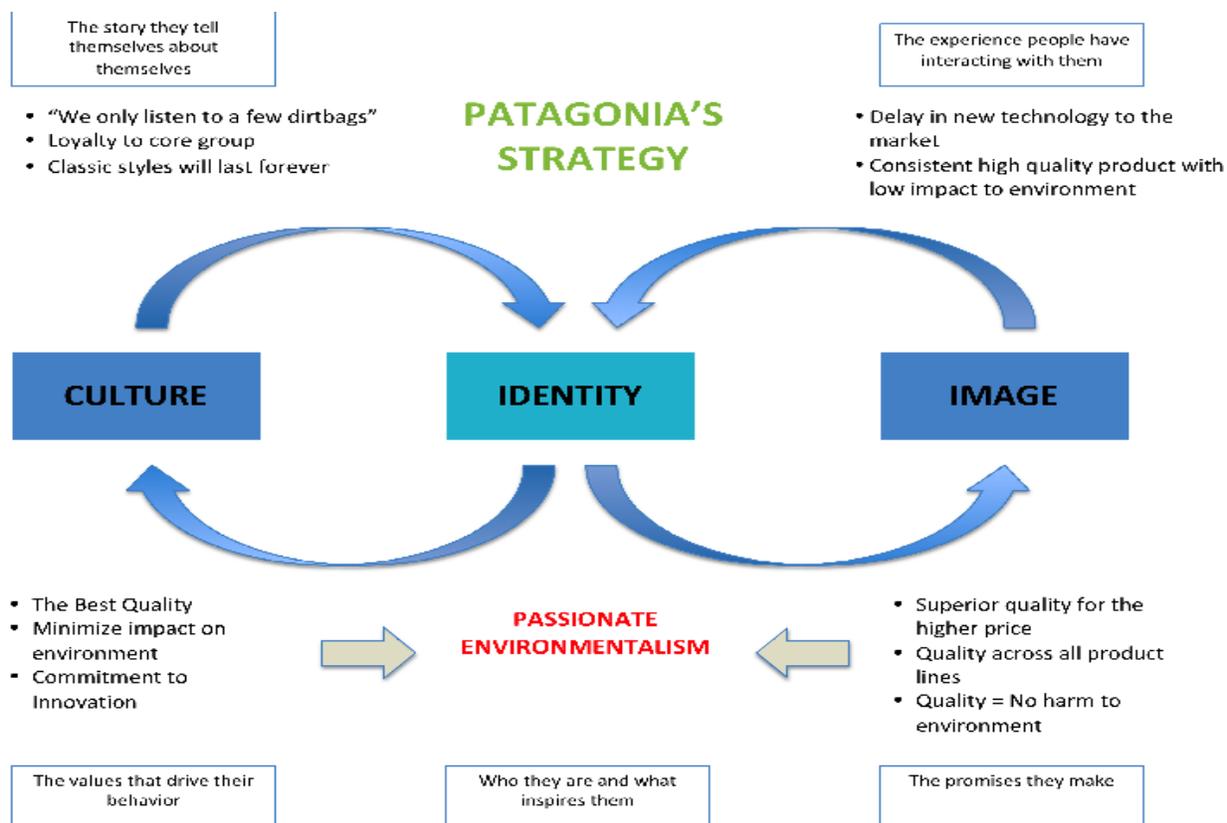
"SMO's involve a lot of people in their futuring process." (Lawler & Worley, 2011, Ch. 5, page 114/449-ibooks). "To support innovation, Patagonia gathered feedback on its products from world-class climbers and other professional athletes (the "ambassadors"). Patagonia also spent about \$150,000 annually on in-the-field testing..." (Reinhardt, 2004, p. 7). It appears that to them they are involving the "core" people only; certainly not a lot and the amount is small relative to earnings are industry averages.

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“Scenario planning is the best method for considering possible future situations, exposing changing business assumptions, and developing a cadre of options to draw on in the future.”

(Lawler & Worley, Ch. 5, 2011, page 114/449-ibooks). Patagonia didn’t do much scenario planning. Rather, they did a present-focused full cost accounting for their products to help them prioritize the most sustainable option.

In general, it appears that when Patagonia needs to consider any term strategy, the focus returns squarely to their values. This case study does not present much evidence to confirm that Patagonia has the necessary effort, focus, or elements for effective “futuring”. In our opinion they do not present futuring well.



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Patagonia's Organization Design

Strategy

Patagonia has made a conscious and consistent decision to focus on a niche market targeted at their core users, which they call “dirtbags,” described as people “who appreciate athletic endeavor for its own sake.” They aren’t concerned about the voices of all potential customers, just that of their core users and design product specifically for that target market. Their overall strategy is to develop high quality products that are aesthetic, respectful of the environment and command prices that are 20% above their competitors.

They have divided their product lines into eight target areas; Alpine and Sportswear, being the two largest lines, followed by Capilene[®], Luggage/hardgoods, Endurance, Kids, Accessories and Fishing. They make classic products across all lines versus chasing the latest trends.

While making high quality products is a key priority they have made a consistent effort to minimize the impact they are having on the environment; “best-quality stuff with the least amount of harm to the environment” (Reinhardt, 2004).

They have successfully built a brand without a lot of “marketing.” “Building a brand is not about marketing. It’s about having authenticity” (Reinhardt, 2004). They focus on building their brand by having a balance between product quality, environment, community (social) and financial.

The company’s core values are “commitment to the soul of the sport, to an uncommon culture, to environmental activism and to clean design.” Their strategy supports and aligns these core values.

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Structure

Patagonia is a relatively small company, with approximately 1,000 employees with a functional organization structured at the top. This allows them to leverage technology and information across their product lines and customer base. At the second level in the organization, the EVP has his structure by distribution channels. Their strategy is consistent across the product lines making this overall structure appropriate.

While they have defined their eight product lines, they have not structured the organization by product line at the top. However, they have identified team leaders for each product line. These team leaders are expected to design and create products that are appropriate to all distribution channels, which is likely why they did not organize by channel. They leverage teams to develop each of the product line with a team leader who defined the strategy of the product line.

Patagonia has remained a private company and therefore does not experience the pressures to grow fast or change its focus as it may if they were a publicly traded company.

Processes

They spend twice as much as their specialist competitors on research and design and again with a focus on making quality products that last and meet the needs of their core customers, while being environmentally conscious. These processes align to their strategy and also show their commitment to environmental sustainability.

They have implemented many processes and programs, which align to their environmentally focused strategy. This includes providing grants to environmental groups, their “earth tax” program, provided products to environmental groups, and a program that allowed employees to work full time for an environmental group while being paid by Patagonia.

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Patagonia relies on long-term relationships with suppliers versus formal contracts, which in the long-term could minimize their opportunities to reduce costs. However, they likely have a confidence that these suppliers understand, respect and align to their goals around the environment.

It appears that most of Patagonia's processes align with their strategy; even their cafeteria aligns with the focus on the environment by serving organic food and conscious of the type utensils and cups they use.

Rewards

Employees were rewarded with a 401(k) plan and a bonus pool, which paid out based on the achievement of company goals. While employees were expected to work hard, there is a respect for their personal lives with a philosophy that employees that had a well-rounded lifestyle will be more productive and better employees. Patagonia was one of the first organizations to open an onsite childcare center staffed by Patagonia employees; emphasizing the focus on employees and their overall life and balance. Patagonia has been recognized by *Working Mother Magazine* and *Fortune's* 100 Best Companies to Work for in America for this flexibility and working environment.

Other benefits offered by Patagonia included speaker series, yoga classes, public speaking, understanding financials etc. All of these benefits align to their strong culture and contribute to their low turnover rate.

Many of their reward systems, both formal and informal align with their company culture which aligns to their overall strategy. Retaining these employees that align with the culture will help Patagonia sustain their company culture and make alignment to their strategy easier.

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People

The employees at Patagonia are passionate about their product, in many cases they use the products and provide input on new products. The culture created at Patagonia attracts and retains committed employees that resonate with the product and have the flexibility to use these products due to the company's culture and focus on work life balance. This has played a key role in the retention of talent both at the stores and the offices resulting in lower than industry turnover rates.

It appears that the CEO's that have led the organization have clearly understood the culture and has maintained the integrity of the original mission of the organization.

Patagonia's employees are committed, flexible, and passionate about their products and resonate with Patagonia's commitment to the environment.

What should Chouinard do?

Patagonia has a solid business model, great products, loyal customers, and are very conscious of the environment, not to mention they are giving money back to further support the environmental cause. Despite this they should seek change while maintaining this passion and loyalty.

While they have discussed a no-growth policy and have resolved to have a slow growth strategy, the question is, "will their business be sustainable?" Retail competition is fierce, even in the markets they play. If they don't grow the business their competitors may begin to eat the market share that they have. They speak of high costs associated with this commitment. As technology advancements continue this cost may be reduced allowing competitors to enter their market. Possible expansion while retaining core values could be to invest in companies developing this technology for more environmental friendly goods.

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They also appear to have a well-defined but rigid process of acquiring, manufacturing, and distribution of their goods. This is a factor to ensure the quality they demand. Could there be other options to help make this process more efficient without compromising on quality? It seems like there are options that can be explored to help lower the cost.

Most importantly, becoming a more global company allows them to do several things that fully support their overarching strategy. First, if they show the “world” that you can develop quality products while being environmentally conscious and they can be a benchmark for other companies, even outside of their industry. Secondly, if they continue to give back 1 percent of sales or 10 percent of pretax profits, and they become a larger company, they are able to give back a higher amount of money to further the education and cause.

That being said, it appears that before they expand globally, they need to spend some of their research and development dollars on understanding global markets and determine they need to modify their products to be relevant in the respective target regions. Also, they need to make sure they understand each region’s business environment, appropriate distribution channels, etc.

While they say their brand and product transcends age, they should look to expand more in other distribution channels. This might involve a unique, customer friendly online experience versus a brick and mortar store, which is much higher in costs. The younger generation is much more mobile – look into options in mobility that aligns with the core values.

They have a lot of work to do, but need to start exploring change to insure the sustainability of the company.