

# Patagonia case study essay sample



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Patagonia known as the “ dirtbag” business initially when it was established in 1972 by Yvon Chouinard is now a multimillion dollar enterprise. A retailer of high-end outdoor clothing is known for its green business model.

Environmentalism is at the core of Patagonia and that can be seen in their mission statement where it is committed to achieve three main objectives: Build best products for its customers, cause no unnecessary harm to the environment and use business to give solutions and inspire others to minimize environmental crisis. Patagonia had a philosophy of originating its goal mainly on doing things right for the environment and away from profit. The company does not focus on making huge profits but their main focus is to sustain the core value of the company. Patagonia’s technological innovation and environment conservation initiatives are the two things that differentiate it from its competitors.

Patagonia persistently tried to improve the environmental impact of its processes. It has always been an eccentric company, its strive for sustainability has encouraged it to take up a new initiative where it will encourage consumers to buy less of new Patagonia’s apparel and ask them to reduce, repair, reuse & recycle. Therefore the challenge before Patagonia is that how will the company’s intention to encourage consumers to buy less in order to lower the environmental crisis from over consumption, lead to targeted growth rate? Achieving Targeted growth, making profit and sustaining company’s values seem difficult to achieve.

## RELEVANT THEORY

The case of Patagonia involves the intention of the company to take up a new environmental initiative and target an increase in sales by 10% for the next five years. It has a unique business model which is purely based on the philosophy of making least environmental impact over the entire value chain. The most important part of this business model is the company's value proposition – Its commitment to environmental initiatives and constant innovations are the two main bases of its differentiation strategy and competitive advantage. With this being the basic business model for Patagonia, it has excellently positioned itself as supplier of high quality products and has also fulfilled its pledge to reduce environmental damage.

Keeping this sustainable business model in mind, Patagonia has to initiate the new idea of “ buy less campaign” among customers and get the intended increase in sales. In order to do so the management team at Patagonia will have to understand the company's internal strengths and weaknesses and would also have to analyze the external environment in order to know the threats it faces from its competitors and suppliers. The SWOT analysis of these factors will help Patagonia understand what changes it needs to make internally in order to take this new initiative forward. And also how will the external environment react to those changes. After all above mentioned analysis, Patagonia will have to look at various alternatives to that fit best with environmental crisis serving as a business model and maintaining profitability and growth of the company.

#### ASSESSMENT OF ALTERNATIVES

Patagonia is facing challenges from various retailers and competitors. In order to come out of this situation Patagonia has a few alternatives that can be adopted. Firstly the company has an option of increasing the price of its products in order to offset the imbalance that will be caused due to increase in repair & recycle cost and decrease in sales and profit margin due to the “buy less” initiative. Patagonia pioneers in manufacturing high quality apparel that lasts long. Such products have a right to demand a premium price for their high quality products due to differentiation and value addition of environmental welfare. As the new initiative would increase the costs of the company in order to repair and recycle the used products, increasing the price of the products would help to take this additional burden.

It will also help the company in fulfilling its core objective of environmental sustainability where it donates 1% of its revenues to environmental causes. Another advantage of this option is that target customers are people with an average income of \$160, 000 with a median age of 38 yrs who will not have any objection paying a little higher for their favourite product. Patagonia might face an external threat from other competitors in this situation as their goods will be much cheaper than that of Patagonia. This might encourage a few customers to switch to other brands like Nike or the North face. Such a situation can threaten the growth of Patagonia. The second alternative for Patagonia is to not implement the idea of “Product Life Cycle Initiative” and “buy less” any further. This alternative is much safer for Patagonia because the above mentioned initiative is completely consumer driven. The success of this idea completely depends on whether it would have any practical impact on the consumer behavior.

As Patagonia's target consumers are rich enthusiasts, it is likely that they would not prefer wearing repaired clothes or used clothes. Therefore putting so many efforts in an initiative that is based on hypothesis and is risky doesn't make sense. The advantage of this alternative is that Patagonia will not have to bear any additional cost burden. The sales will not drop and there will be no threats from the competitors. As we know Patagonia has a green business model dropping the idea of buy less campaign would be going against the core value of the company. Therefore to compensate that Patagonia can increase its 1% donations to environmental organizations. This way the company will be able to follow its mission without any risk of hindrance in growth. The third alternative would be to Promote the Buy Less Campaign extensively.

Patagonia spends very less on marketing of its products, but a campaign like this should be marketed far and wide. Differentiation being the main business strategy for Patagonia this campaign fits correctly with the image of the company. No other company would have the guts to ask its customers to buy less and that differentiation works as a life line for Patagonia. The uniqueness of this campaign could actually encourage customers to buy more and that could lead to increase in sales. This can trigger more sales from two types of customers – customers who make their buying decisions based on social responsibility will switch to Patagonia in order to contribute to the good cause and the customers who will sell their old clothes, will have extra cash to buy new clothes.

Therefore the increase in sales will off set all the costs involved in order to take this initiative forward. This campaign also gives an competitive

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advantage to the company against external competition. The only disadvantage of this option is that due to extensive promotion of this initiative it can be looked at as a marketing gimmick and can harm the environmental welfare image of the company. Last option that can be adopted by Patagonia is to manufacture new clothes from the recycled clothes. Patagonia should contemplate doing business with their suppliers. Again following its differentiation strategy Patagonia has an option of working with its retailers and customers to recycle clothing which is completely worn out and sell this recycled material back to its suppliers at a lower cost. The recycled material would become the base to manufacture new apparels. This will be an extra way to increase sales and would balance with the increase cost of recycling worn out items.

#### SUGGESTED COURSE OF ACTION

After a thorough analysis and assessment of the case study the most feasible option for the company would be to increase the price of its products marginally. This is a very safe and risk free option and is also perfectly in sync with Patagonia's business model. As a privately owned business with a very strong trail of environmental and social welfare, the company is widely known for its focused differentiation strategy. Product Lifecycle Initiative aligns well with the existing positioning of the company. Patagonia is also an industry leader in technological innovation which is another competitive advantage it holds against other players in the market. They focus on a narrow segment of customers who are willing to pay a premium price for the high-quality products. Therefore a marginal increase in price would not have any adverse effect on the buying pattern of consumers.

Patagonia makes all its business decisions based on environmental impact, therefore the “ Buy less campaign” is extremely important to Patagonia’s core business model. Due to the uniqueness (Differentiation) of this campaign it will act as a blessing in disguise for Patagonia. It will encourage more new customers to be a part of this unique initiative. This not only serves the environmental values of the company, but will also help the company to help reach its targeted growth rate. Increase in prices for the products would also compensate the additional cost challenges Patagonia might face from the extra burden of repair and recycle. Although the suggested approach indicates putting extra burden on the consumers by increase in prices but I feel doing this is extremely important for the company to fulfill both its environmental commitment and targeted growth rate.

#### KEY TAKEAWAYS

For companies like Patagonia which has a unique environmental objective attached to it and also aims achieving growth and being profitable, it is extremely important to define the strategy correctly in order to gain and sustain its competitive advantage. The core of a company’s business model is its value proposition which acts as its differentiation strategy and competitive advantage. Goals that a company defines should be in line with its business model. Defining and application of major goals and initiatives taken by a company must be based on consideration of resources and an assessment of the internal and external environments in which the organization plays. The management should look at strengths that the company holds like innovation and high quality products were the strengths

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of Patagonia due to which it could charge a premium price for its products. But innovation must be managed with respect to capacity and resources.

Therefore an analysis of internal factors like resources, capital, technology and the work force is also required in order to know if they are ready to take the pressure of a new goal. After the internal analysis the company has to analyze the external environment to know that how will that respond to the new approach. The external environment comprises of consumers, suppliers, retailers and most importantly competitors. All this put together is called the SWOT analysis of a firm. Therefore only after all this analysis will a company know if the new defined goal can be successful in the market and fulfill a firm's objective and provide growth.