

# 4a. Patagonia's Balancing Act: Chasing Mass-Market Appeal While Doing No Harm

**Synopsis: Case 4a invites you to use the framework of Module 4 to assess the efforts of a single company, Patagonia, to move up the 3-stage continuum from "corporate social responsibility" to "sustainability" to "creating shared value."**

## Apparel company revamps supply lines, cuts production to maintain its ethical standards

By Erica E. Phillips Aug. 17, 2016 Wall Street Journal

VENTURA, Calif.—Patagonia Inc. has built an \$800 million outdoor apparel empire selling heavy-duty jackets, backpacks and long underwear at premium prices, winning a loyal customer base with vows to “build the best product” and “cause no unnecessary harm.”

But as Patagonia's growth has taken off, the company is finding those two promises coming into conflict.

In 2010, German animal-rights group **Four Paws** said it found evidence that farms supplying down feathers to Patagonia were force-feeding geese to fatten their livers for foie gras. In 2012, Patagonia discovered brokers were charging migrant workers thousands of dollars for job placement at the company's factories in Taiwan—a practice human-rights groups say is a form of slavery. And last summer, **People for the Ethical Treatment of Animals** posted a video online depicting grisly abuse of sheep at South American ranches that sold wool to Patagonia.

Each revelation has caught the company—which promotes itself as the one writing the rules, not breaking them—off guard. In response, Patagonia has set new standards. In Taiwan, it worked with suppliers to repay workers, and in other cases it cut ties with suppliers and rebuilt supply chains from scratch, even as it pursued global expansion and launched new product lines.

Patagonia's profit has tripled since 2008, and the company maintains a reputation for transparency and socially responsible behavior with its customers, brand experts say. But the company is learning a tough lesson: upholding a strict code of ethics while chasing mass-market appeal is a tricky balancing act.

Patagonia has spent the better part of a year visiting farms and meeting with animal-welfare experts and other wool brands. At a visit to a sheep ranch wool supplier in rural Oregon, USA, Rachel Cantu, head of supply chain for Patagonia, said. ‘We learned some very important things from them as growers,’ Ms. Cantu said. ‘That helped to make the standard even better—to make it more implementable, not necessarily easier to comply with, but more realistic.’ Proprietors

Jeanne and Dan Carver introduced the group to their sheep personally, and they toured the rolling grasslands and the barns.

Patagonia staff learned about and evaluated the farms' treatment of both animals and the land, as well as the caliber of their wool fiber products. Growers needed to demonstrate they would be able to 'consistently meet the quality requirements and all of the other requirements we'd have for animal welfare or environmental responsibility,' said Ms. Cantu. 'That's the model we try to use with any supply chain that we're developing.' At the sheep shearing shed, Ms. Carver explained how sheep are treated during the wool-removal process, ensuring the team from Patagonia that they are never handled roughly, by the fleece or the ends of their legs—something animal-husbandry expert Temple Grandin had recommended when she met with Patagonia's wool task force.

Regarding castration and tail-removal practices, Ms. Carver said she doesn't always know the tactics her ranchers have taken because 'we're all a little bit different.' She said before Patagonia started asking about those procedures, it never really came up. The group's inquiry 'has opened the door for those conversations,' she said, during a tour of the ranch.

Since that December visit, Patagonia representatives have returned to Oregon several times to observe sheep shearing and the birth of baby lambs. They tested out their new standards and tweaked them based on the farmers' feedback. In July, Patagonia announced a new partnership with Imperial Stock Ranch, as well as Red Pine Land and Livestock Co. in Park City, Utah, which will both supply wool for Patagonia's high-performance socks.

Companies often run into "a huge disconnect—where [marketing teams] are ready to tell the story before operations and supply-chain teams are ready and able to confirm it," said Alexis Bateman, a researcher at **Massachusetts Institute of Technology's Center for Transportation and Logistics**. "It's possible they know where the farm is, even who the farmer is, but not what's happening 365 days a year."

Patagonia was founded in 1973 by Yvon Chouinard, a surfing, mountain-climbing environmentalist who has written books on socially and environmentally responsible business practices and advised other retailers on ways to improve transparency in sourcing.

"When you're trying to clean up your supply chain, you can't believe how deep you have to go," Mr. Chouinard said.

Under Chief Executive Rose Marcario, who worked previously in corporate finance and private equity, Patagonia has added retail partners across five continents, invested in e-commerce and launched new product lines.

Cara Chacon, Patagonia's director of social and environmental responsibility, said it felt like her team was "still eyes deep" in fixing the down-feather supply chain last August, when executives learned that **PETA** was planning a campaign against the company's wool supplier, **Ovis 21**. Within 24 hours, they learned, PETA would be posting a video to its website showing rough treatment and mutilation of sheep during shearing.

“Wool was on our radar,” Ms. Chacon said. “We knew that it probably wasn’t perfect, but we had no idea that was going on.”

The **Ovis 21** network is a collective of more than 160 ranches in South America. Ovis 21 had been a supplier for all of Patagonia’s wool products, including sweaters, hats and socks.

Within days Patagonia announced it would stop buying wool from **Ovis 21**. Patagonia had to scale back plans to boost production of its newest wool items, including a line of long underwear the company spent three years developing and had launched just a month earlier.

“People really loved the product, and we basically stopped making it,” Ms. Marcario said.

While Patagonia was among Ovis 21’s smaller buyers, losing such a well-known customer “was a very big blow,” said Ricardo Fenton, co-founder of the Ovis farm network. The footage in PETA’s video was primarily shot on one particular farm in the network, he said, and the manager of that farm—who wasn’t present the day it was shot—has vowed to correct the problems seen in the clip.

“Although we weren’t specifically auditing for animal welfare, these were just not good practices,” Mr. Fenton said. Ovis is working to fix the issues more broadly across its network through its continued efforts with the nonprofit **Textile Exchange’s International Working Group**, which includes Patagonia, to develop an industry-wide “Responsible Wool Standard.”

Patagonia assembled an in-house task force to rewrite the company’s criteria for wool growers and find new suppliers. For the past year, Ms. Marcario has met regularly with the wool team and personally approved standards for castration, shearing and lamb birthing.

Staff met with experts including livestock-handling specialist Temple Grandin and toured remote sheep ranches. Task-force members were on hand for shearing and the birth of lambs at several farms.

In July, Patagonia announced an agreement with two ranches in Oregon and Utah, which will grow wool for the retailer’s socks. Patagonia has identified another supplier for the rest of its wool products, but has yet to sign a contract.

While Patagonia is still seen as a leader in how it addresses social and environmental issues, the company and the industry as a whole should be more proactive about rooting out problems, said Nikki Hodgson, manager of sustainable business initiatives for the **Outdoor Industry Association**.

“When you don’t know what’s happening in your supply chain, you’re more at risk for stuff like this,” Ms. Hodgson said, referring to the PETA campaign.

Here are two comments to the article:

1. *Reshoring some of the supply chain to the U.S. could eliminate some of the societal and environmental concerns while allowing for more transparency, facilitating a quicker response to customer demand and reducing the corporate carbon footprint on the world environment from long distance transport.*

#### *The Reshoring Initiative Can Help*

*The not-for-profit Reshoring Initiative's free TCO Estimator can help corporations calculate the real P&L impact of reshoring or offshoring. <http://www.reshorenw.org/tco-estimator/>*

2. *The PETA Gestapo is at it again with their guerrilla media tactics. One ranch, out of 160 ranch network. What a joke. No concern for the economic impact to the children and families of the ranch workers & ranchers. Workers suffer, not the animals. Nice work PETA.*

*If you would like a broader view of Patagonia's sustainability commitment, go to [Patagonia.com](http://Patagonia.com). However, this is not necessary for analysis of this case. For photos of the Oregon sheep ranch, go to <http://www.wsj.com/articles/patagonias-balancing-act-chasing-mass-market-appeal-while-doing-no-harm-1471426200>*

#### **Questions:**

**Module 4 argues that there is an ongoing movement from “corporate social responsibility” to “sustainability” and now to “creating shared value.”**

**1. Create an argument that Patagonia is:**

**a. still at the “corporate social responsibility” stage but has moved no further**

**b. has moved to the “sustainability” stage and has moved no further, i.e., is not yet at the “creating shared value” stage.**

**c. is now at the “creating shared value” stage in its development.**

**2. Write two elements of a simple ethical code for Patagonia to distribute to its suppliers, one “general precept” and one “specific practice” element.**

**(maximum length 300 words)**