Yvon Chouinard
Patagonia, Inc.

"No business can be done on a dead planet. A company that is taking the long view must accept that it has an obligation to minimize its impact on the natural environment"
-Yvon Chouinard

Patagonia, Inc. was the largest of a group of companies owned by the Lost Arrow Corporation. This privately owned company, based in Ventura, California, was a pioneer in the over $15 billion outdoor apparel and equipment industry (Lehr, 2000). It was also nationally and internationally renowned for its proactive environmental policies, programs and positions.

Founded by Yvon Chouinard, Patagonia Clothing was incorporated in 1979 and in 1984 changed its name to Patagonia, Inc. By1999 company sales had reached $182 million. By then the firm was designing, manufacturing and marketing a wide range of outdoor clothing and sporting equipment ranging from surfboards to high alpine climbing accessories. At that time Patagonia employed over 800 people worldwide, sold to 600 plus specialty retailers in the United States and Canada, and operated 29 company-owned retail stores and outlets. Among the company stores and outlets were four in Europe, six in Japan and two in Australia. In addition, Patagonia maintained a thriving internet and catalog mail order business. The company outsourced the cutting and sewing of its garments to some 50 contractors throughout the world (Welling).

History

Yvon Chouinard was born in the French-speaking region of Maine in 1938 and spoke only French when he and his family arrived in Burbank, California in 1945 (Patagonia, 1988). During his teenage years Chouinard embarked on what he referred to as his "fun hog" and "dirt-bag" period, where he traveled around vagabond-style and surfed and climbed extensively in the U.S. and abroad (Patagonia, 1998). Chouinard remained an avid mountain climber, surfer and fly fisherman after becoming a successful entrepreneur. Patagonia's success over the years can be attributed in large part to his first-hand knowledge and love of the outdoors. In 1999 *Time* magazine designated Chouinard a "Hero for the Planet" because of his leadership in environmental work and his efforts to affect social change (Rosenblatt, 1999).

By the time he was 18 Chouinard was not only an accomplished mountain climber but also a self-taught blacksmith. Because he did not like the soft metal pitons (climbing spikes) that were being used then, he decided to forge his own out of hard steel. Discovering that he could easily make more pitons than he needed, he started selling extras out of the back end of his car. A short time later, he added a second product, carabiners (rings that connect to pitons and also hold the climbing rope). Business was profitable but climbing was still his passion.

After a two-year hitch in the Army, Chouinard returned to his fledgling business and moved it out of his parent’s back yard to a run-down facility in Burbank; in 1966 he moved it again to a tin shed in Ventura to be closer to the “good surf.” It was there that he joined forces with his climbing buddy, Tom Frost, a Stanford-trained engineer. The two friends formed Chouinard Equipment, Ltd., and transformed the manufacturing process from a hand-made to a machine shop operation. In an effort to promote mail-order sales they issued a one page mimeographed product sheet which included the admonition that they could not promise a quick response during the peak climbing months. This laid-back attitude became a distinguishing feature of Patagonia’s business culture.

But perhaps an even more important value emerged during the early years – the emphasis on quality. Chouinard and Frost were almost fanatical about making the finest climbing gear in the world. Their products were also designed to have clean lines and use as little material as possible. As a result, the reputation of the company’s products grew and by 1970 Chouinard Equipment was the largest supplier of climbing equipment in the United States. But concomitant with their company’s success, the partners became concerned about the negative impact their pitons were having on the environment. Many popular climbing routes were becoming permanently scarred by the repeated hammering of pitons into the rock.

Finally, after witnessing first-hand the destruction along a trail on Yosemite’s El Capitan, the partners made the momentous decision to phase out pitons. To replace this key product, they developed their version of the aluminum chock which could be wedged by hand in and out of cracks in the rocks. Although chocks were relatively unfamiliar to American climbers, Chouinard and Frost decided to promote them with the issuance of the first Chouinard Equipment Catalog in 1972. The publication opened with a 14-page essay describing the environmental hazards of pitons and championing “clean climbing”, principally through the use of aluminum chocks. The catalog promotion was a great success as many climbers switched to the company’s chocks and the product could not be manufactured fast enough to meet demand.

During the 1970s, the number of outdoor specialty stores grew rapidly. They provided a second channel of distribution for the company’s products but Chouinard recognized that climbing gear was only a fraction, about one percent, of their business. In response, he experimented with importing rugby shirts from England. This initiative also proved to be a market triumph and, in 1975, the company placed a standing order for 3,000 shirts per month.

That year, however, also produced a fateful conflict. Tom Frost and his wife opposed Chouinard's expansion into soft goods as well as the recent opening of a retail store. As a consequence, the nine-year partnership was dissolved.

During the following year Chouinard Equipment introduced clothing under the Patagonia label and three years later Patagonia Clothing Corporation was established. In 1984 Patagonia, Inc. was incorporated as a wholly owned subsidiary of the Lost Arrow Corporation. Other subsidiaries were Chouinard Equipment, Patagonia Mail Order and Great Pacific Iron Works.

Early on, the Patagonia line gained a reputation for quality. The clothing was described as being "ridiculously overbuilt." Follow-on products maintained the reputation for being built-to-last but also embodied technical development. The company's first technical product was insulated Foamback Rainwear. Many other innovative products followed. Synchilla® , a soft, non-pilling, double-faced, fleece fabric was arguably Patagonia's best-known product innovation. In 1998, the company introduced Infurno garments which had the advantage of allowing the user to adjust to shifts in temperature without resorting to layering.

With the early success of its technical products, Patagonia committed to a policy of investing significantly in research and development. It established a fabric department and a fully staffed fabric lab that worked with a variety of textile mills on the development of new fabrics.

Another important policy innovation was the pioneering of bright colors in the 1980s. Up to that time, outdoor garments tended to come in bland colors such as khaki and forest green. Over the years, Patagonia introduced a series of brilliant colors such as cadmium orange, burnt chili, butternut, and mineral blue. The new colors were a hit with customers and together with the appeal of high tech fabric propelled the company's clothing line into the high-end fashion segment of the industry, extending well beyond outdoor shops and sportsmen.

The products were promoted through the company's catalogs which featured striking photography and graphic design. Photographers typically depicted people at risk in beautiful natural locations and the products were shown without models in vivid color.The graphics in the catalogs were coordinated with text carefully formulated to communicate the advantage of each product.

In 1987, the company initiated a project termed "Ground Zero" which resulted in reducing the number of wholesale accounts from 900 to 650. The idea was to restructure the company's wholesale business such that there would be a smaller number of high-volume dealers. As part of this program, product education and merchandising seminars were put on for dealers and consultants were hired to help set up Patagonia in sections in key stores. At the same time, the company continued on its path of cautiously opening new, company-owned stores in locations with good, but not the highest, foot traffic. In those stores the company's policy was to thoroughly train the sales staff on the technical aspects of its products and on providing outstanding customer service.

Nineteen-eighty-nine was a significant year for the Chouinard Empire. The parent company, Lost Arrow, sold Chouinard Equipment Company to a group of its former employees who relocated the company to Salt Lake City and renamed it Black Diamond, Ltd. Its products are still marked with Chouinard's original blacksmith stamp. The sale was precipitated by a series of lawsuits revolving around the issue of whether climbers using Chouinard equipment had been properly warned about the dangers of the sport. As a consequence of the suits, the company's insurance premium escalated 2,000 percent in one year; the company filed for bankruptcy giving the employees time to raise capital sufficient for the buy-out.

The next several years proved to be pivotal in the history of Patagonia. Sales grew 40 percent in 1989 and the company reorganized into eight semi-autonomous product divisions along with its four traditional sales channels (retail, wholesale, international and mail order). Another banner year was projected for 1990 and it was anticipated that Patagonia would be a billion dollar company by the beginning of the new century. To accommodate the predicted growth, 100 new people were hired and the Ventura facility was enlarged. But, with the 1990-91 recession, sales fell far short of established goals. Additionally, trying to coordinate eight separate product lines through four competing sales channels was severely straining management's capability and ingenuity.

During this time period, Chouinard became increasingly uncomfortable with the direction of the company. He saw it growing well beyond its original niche as an outdoor marketer. But more importantly, he was concerned that it no longer matched his personal values.

Chouinard and his wife began to rethink Patagonia's direction. To help in sorting things out, they flew to Florida to meet with a business consultant. Chouinard explained to the consultant that he was pessimistic about the fate of our environment and was staying with the business to make money to give to environmental causes. The consultant responded that if this was his goal, he should sell the business for a hundred million dollars or so, keep a little for himself, and set up a foundation with the rest. That would allow him to give away six to eight million dollars a year and he might be able to persuade the buyer to continue with the company's contribution programs.

The consultant's advice was very unsettling to the Chouinards and they returned to Ventura nonplused. But after a few months of soul searching, they concluded that the money the company was contributing to environmental causes barely made a dent in the world's problems and that the greatest good they could do would be to develop Patagonia as an exemplar for other companies to emulate. Their idea was that business firms could educate and lead consumers to become environmentally responsible and, in turn, consumers could influence government policy. (Chouinard, 1995).

Concurrently, in 1991, Patagonia's business problems came to a head when the firm's primary lender drastically reduced its credit line, resulting in a severe cash pinch. After first instituting austerity measures such as freezing hiring and nonessential travel, on July 31st, the company laid off 150 people (20 percent of its work force). Shortly thereafter both the CEO and the CFO resigned. The layoff ushered in a new direction for the company – one of controlled growth, prudent cash management, and even greater dedication to environmental responsibility. To this end, a newly developed statement of purpose and core values expressing Chouinard's vision for the company was agreed upon and published.

Eight years later, in October of 1999, Yvon Chouinard retired and Michael Crooke took over as CEO of the Lost Arrow Corporation (Now composed of Patagonia, Inc., Patagonia International, Patagonia Mail Order, and Great Pacific Iron Works). As with all company employees, Crooke had demonstrated a commitment to the environment. He was formerly president of the Conservation Alliance, a grant giving organization for the outdoor apparel industry (Lehr, 1999). On assuming the position of CEO, Crooke stated that he intended to follow the strategic course set by Chouinard and not stray from the company's environmental commitment (Lehr, 1999).

Chouinard, who still owned the company, stepped away from direct control to pursue other interests. From an operating perspective, however, this was not a drastic change. Chouinard had never been a hands-on manager. His pattern was one of "long periods of absence alternating with spells of intense involvement" which typically focused on design concepts and the championing of pet projects (Patagonia, 1998). As a consequence of this unique management style, he relied heavily on a series of CEOs over the years.

Chouinard's Philosophy

Yvon Chouinard never saw himself as a businessman or manager; rather, his self-image was that of a craftsman and outdoor sportsman. He became a business man through fortuitous circumstances. He even referred to himself as an "accidental businessman." Nonetheless, he created and sustained a very successful business. His original partner, Tom Frost, has remarked, "The fact of the matter is, he's a genius, a genius at business (Johnson, 2000).

Chouinard's personal beliefs translated directly into Patagonia's environmental mission. He maintained a very pessimistic view of the future of the natural environment. He once said, "I'm just looking at the facts. It's not an emotional thing with me. How to solve some of it is unacceptable. We're in denial about the real problems. It's going to cost society too much. That's why I'm a real pessimist. But that doesn't mean I sit back and don't do anything (Johnson, 2000).

Choinard spent years studying Zen Buddhism, a philosophy that teaches that people should focus on the process rather than the end result (Johnson, 2000). This may explain the apparent contradiction between his belief that neither he personally nor his company can have a significant impact on solving the world's environmental problems, and his actions in developing his company as a paragon of environmental responsibility.

In line with his beliefs, Chouinard both personally and through his company, supported a broad spectrum of environmental and social causes over the years. One campaign involved lobbying the states of Maine and Washington to remove dams blocking salmon from reaching upstream spawning grounds. He also helped fund Julia "Butterfly" Hill, who lived for two years in a Northern California redwood tree protesting deforestation. On-going concerns of Chouinard included strip mining and habitat protection. He also supported human rights issues, particularly concerns for child labor and sweat shops. Furthermore, because of his conviction that environmental degradation was fueled by a growing population, he supported pro-choice activists.

Chouinard demonstrated a special concern for environmental disputes in Ventura County. In the 1980s he and his wife publicly campaigned against the State of California's plan to build a university campus on the seaside bluff north of the Ventura River (Lehr, 1999). He was so committed to the cause that he even threatened to move his company out of the county. The state eventually redirected its plans to a site outside of Ventura County. Chouinard also consistently supported the candidates for the Ventura City Council who were pledged to preserving the ecology of the area.

Another important dimension of Chouinard's philosophy is his almost fanatical concern for quality. He saw the consumer economy as a key component of the environmental crisis. He suggested that the notion of "sustainable manufacturing" is an oxymoron, i.e. all manufacturing processes use resources and pollute (Chouinard, 1995). Moreover, he contended that the American throwaway mentality exacerbated the problem immensely. The antidote, he argued, is quality. If we make products that last, consumers will purchase less, leading, in turn, to lower production and consequently reduced demand for natural resources and less pollution. Chouinard firmly believed that firms should not build in product obsolescence and asserted that Patagonia's goal was to, "offer only viable, excellent products that are as multifunctional as possible so costumers can consume less but consume better (Chouinard, 1995)

Simplicity was also a key ingredient of Chouinard's philosophy. It was an aesthetic value but also a discipline for using less of Earth's resources. Chouinard was fond of quoting the twentieth century French author and pilot, Antoine de Saint Exupery (Chouinard, 1995):

> *"In anything at all, perfection is finally attained not when there is no longer anything to add, but when there is no longer anything to take away, when the body has been stripped down to its nakedness."*

Environmental Strategy

Patagonia's grand strategy was to design and market high quality, durable outdoor sportswear and equipment while simultaneously working to protect the environment. Customer value and innovative design were essential components of the company's marketing strategy and visionary environmental initiatives were at the core of its social mission.

As early as 1974, the company began to donate money to a variety of grassroots environmental organizations and individuals. Its Environmental Grants Program was launched in 1985 and by 2002 had given over $14 million to more than 900 different groups. The program was funded by Patagonia's "Earth Tax" which was a yearly levy of one percent of sales or ten percent of pre-tax profit, whichever was greater.

In the early 1990s with the grants program well established, the company began to take an introspective look at its own operations and their impact on the environment. A formal internal assessment process was introduced which eventually led to the use of synthetic fleece, organic cotton, green building practices and more.

Synthetic Fleece

In 1993, Patagonia began to use synthetic "Synchilla" fleece (PCR fleece) made from recycled plastic bottles instead of petroleum-based polyester. The company established a relationship with Wellman, Inc., a leading fiber manufacturer, to develop this innovative fleece product. By the Fall of 1999, almost all of Patagonia's fleece products contained at least 90 percent post-consumer recycled plastic bottle content. Moreover, Patagonia was initially successful in convincing other apparel manufacturers to use this material because of its environmental advantages. Many of those companies subsequently stopped using it because of its higher cost, but Patagonia maintained its commitment. The company estimated that 3,700 two liter plastic bottles would produce enough material for approximately 150 Synchilla fleece garments. In the process, a barrel of crude oil would be saved, preventing about half a ton of toxic emissions from entering the atmosphere (Patagonia, "Our Commitment to PRC Fiber").

Organic Cotton

In 1996, Patagonia switched its entire line of sportswear to organically grown cotton. When the company's executives looked closely at the environmental impact of their various input fibers, they were surprised to discover that conventional cotton farming was very environmentally destructive. The learned, for example, that 25 percent of all pesticides applied worldwide were used in the production of cotton (Patagonia, "Vital Statistics"). Initially the switch to organic cotton was more beneficial to the environment than to the bottom line. When Patagonia started to use organic cotton its sales volume dropped significantly because the clothing line was more expensive, reflecting a higher material cost. Positive consumer response was slow to be realized. Moreover, for the company to have a steady supply of organic cotton it had to work directly with individual farmers; and, in some cases it was necessary to co-sign loans to insure production (Rosenblatt, 1999). Sales of organic cotton clothing grew slowly and by 2001 Patagonia was using about four million pounds of this organically friendly material per year.

Similar to its campaign to promote PCR fleece, Patagonia also tried to persuade the industry to use organic cotton. The company organized tours of organic farms for the executives of other clothing firms with the hope of convincing them of the merits of this product, but because of the significant cost differential, few switched. In another move to promote organic cotton, Patagonia created a subsidiary named Beneficial Ts. This company produced and sold one hundred percent organic cotton t-shirt blank to other apparel manufacturers. Within a few years this subsidiary sold over 1.5 million t-shirts (Welling, 1999)

Green Buildings, Green Energy

Part of Patagonia's internal assessment was to continually monitor the environmental impact of its facilities and operations. As a result, a new distribution center in Reno, Nevada and a new multipurpose building in Ventura were built using all recycled or reclaimed products. Furthermore, in 1998, Patagonia became the first company in California to commit to 100 percent wind-power energy (Brooks, 1998). It Denver store also bought wind-produced energy. Although wind energy was originally 10-15 percent more expensive than conventional energy, it was viewed as an essential component of the company's environmental obligation. The company expected the premium to decrease over time (Patagonia, 1998).

Whenever possible Patagonia attempted to restore old buildings rather than build new ones. The new Patagonia store, located on Columbus Avenue in New York City, was housed in a restored red brick building that was built in 1898 (Patagonia Opens Store in Columbus Avenue, 1999). At the Ventura site, a storage building that needed to be removed was dismantled and then shipped to the Oglala-Souix Reservation in South Dakota where it was reconstructed.

Other Innovations

In 1994, out of concern that 18 percent of all fabric ended up as scraps in landfills, Patagonia turned its attention to the collection and recycling of scrap fleece. The company helped fund a business that would collect fabric scraps and then sell them to a plastic recycler for eventual use as insulation, stuffing in toys and other similar applications (Patagonia, 1998). Then, in 1998, the company took a unique step by "pre-cycling its own scraps for use in producing infant clothing. Under the "pre-cycle" concept, fabric scraps are anticipated and incorporated into the design and production process. To apply this concept, Patagonia worked with designer and manufacturer to rearrange the pattern layout for its adult garments such that suitable pieces of material remained as input for its new infant clothing line called "Seedlings" ("Patagonia Cultivates Seedlings", 1998).

Organizational Culture and Control

Patagonia has developed a unique culture that values employees who are highly committed to accomplishing the company's purpose and living by its stated values.

Chouinard, skeptical of business types, generally preferred to hire “dirt-bags” and have them learn the business, rather than hiring business people and trying to convert them to Patagonia’s values (Wells, 1992). Consequently, almost all of Patagonia’s employees were active environmentalists and outdoor sports enthusiasts. In the employment interview process, company officials not only examined the job qualifications of the candidates but also their environmental and leadership philosophies, as well as their recreation preferences (Solomon, 1998).

Chouinard, in a 1995 interview, stated that sales-per-employee was one of the key control standards that management considered at the end of the year. Since sales-per –employee measures how efficiently a company operates, he believed that through monitoring this metric, unfortunate events, such as the layoffs of 1991, could be avoided (Scott, 1995).

In addition to stressing high sales-per-employee, management controlled operating costs by paying salaries that were somewhat lower than industry standards. Nevertheless, the turnover rate at the company’s main facility was only 4.5 percent compared to the industry average of 20-25 percent (Olsen, 1997). Lower salaries, coupled with a low turnover rate, gave credence to the prevailing belief that most Patagonia employees worked for the company principally because they believed in its mission and appreciated its employee-friendly work environment.

Patagonia’s work environment was characterized as relaxed, friendly and casual. No one wore a suit and t-shirts, shorts or jeans and sandals were common attire. There were no dividers or cubicles in company buildings and it was not uncommon to see a surfboard propped up against someone’s desk. The lack of private offices facilitated open communication and the exchange of ideas. Employees typically worked in teams to develop products and to solve problems. The employee cafeteria was open and airy, providing yet another space for employees to meet and communicate.

Although there was a basketball court on site and a beach nearby, Patagonia’s day-to-day business operations could be stressful and demanding. In a very competitive industry, Patagonia employees had to design and produce products of the highest quality while simultaneously minimizing their impact on the environment. Employees seemed willing and able to meet this challenge within their flexible work environment. Chouinard was noted for saying, “ When the surf’s up, surf.” , and many employees did, even during working hours. However, they knew that they still had to complete the day’s assignments and meet their deadlines.

Human Resource Policies

Patagonia’s policies and benefits were designed to support the company’s employees, mission and culture. The company was considered a pioneer in on-site childcare programs. In 1984, the company opened the Great Pacific Child Development Center. Malinda Chouinard was the driving figure behind this initiative. The facility helped the firm’s working mothers integrate their work and parental responsibilities. That was important because 55-60 percent of the employees were women. Moreover, the cost savings associated with the child care center and related programs could be quantified. The company estimated that each year it saved money above its total subsidy to its work-family programs. The savings came in the form of tax deductions and credits as well as in lower employee recruiting and training costs. There were also other benefits which the company believed were real but could not be quantified such as improved employee morale, increased productivity, reduced absenteeism and an expanded recruitment base (Family Services). Largely because of its childcare center, Patagonia for eleven years in a row found itself listed on *Working Mother*'s list of "100 Best Companies for Working Mothers" (Moraga, 1998).

In another popular program, all employees at the company were offered flextime hours that could be varied on a daily basis. Also, each year, workers were offered five days of paid leave for volunteer activities at their children's schools (Brooks, 1998). In addition, under the Patagonia Internship Program, employees could leave for one or two months (benefits and salary maintained by the company while the employee was gone) to work for a non-profit organization, usually on some aspect of environmental activism.

Patagonia had a policy of not hiring long-term temporary employees to replace those on family leave or an environmental internship (placing additional pressure on the remaining staff to get the job done). Such employees were not used because the company believed they would likely clash with the strong Patagonian culture (Solomon, 1998). Moreover, since Patagonia prided itself on a culture that was nurturing and supportive of its employees, the use of long term temporary employees would have been inconsistent because they could never be wholly a part of the organization.

Conclusion

Yvon Chouinard was in excellent physical condition when he handed the top job at Patagonia to his successor, Michael Crooke. Chouinard organized a climb at Yosemite the same month he retired from active management. He was also in excellent mental condition. He retired with the intention of focusing his creative efforts on the development of an unbreakable surfboard. His plan was to do that with the help of his son, Fletcher, operating out of a tin shed in Ventura. That location bore more than a passing resemblance to the place where he started his foray into the business world over forty years earlier.

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