

ABSTRACT

Patagonia Inc.'s Sustainable Supply Chain Initiatives and Their Contribution to Company Brand

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Sustainable supply chain management practices in business involve making decisions about products from design to disposal with regards to the way those decisions impact people, profit, and the planet. Understanding current trends in sustainable supply chain management as well as company brand management is necessary to draw conclusions about how these two areas of business are interrelated. Through the analysis of three separate sustainable sourcing initiatives at Patagonia Inc. and the subsequent impact on the brand image of the company, this thesis discusses the effect of sustainable supply chain management implementation on a company's brand.

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CONTRIBUTION TO COMPANY BRAND

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CHAPTER ONE

Literature Review

Sustainable Supply Chain Management Background

Effective management of a company's supply chain is incredibly important to the success of the firm, while sustainability is incredibly important to the success of our civilization. The three different elements of sustainable development are environmental, economic, and social. These comprise the triple bottom line (TBL) approach to business (Elkington, 1998). The environmental aspect deals with reducing the company's negative impact on the earth and its resources. The economic aspect relates to making decisions that lead to company profit and increased financial power. The social aspect deals with the company's obligation to perform actions that benefit the community in which it operates. Stated another way, the triple bottom line is sometimes stated as people, profit, and planet. Company supply chains can be analyzed and altered to achieve sustainability in these areas. For the purposes of this thesis, sustainable supply chain management (SSCM) will be defined as "the management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social, into account which are derived from customer and stakeholder requirements" (Seuring & Müller, 2008).

According to Pagell and Wu (2009), research has shown, there is no such thing as a truly sustainable supply chain because it would require doing no net harm to any social or environmental systems while making profits for an extended period of time. Doing no net harm would require a company to replenish or replace every single resource used in doing business according to the triple bottom line of people, profit, and planet. There are, however, organizations and businesses that do less harm than others and seek to be more ‘sustainable’ socially, economically, and environmentally.

In recent years, there has been a shift in supply chain management (SCM) practices towards sustainability (Philip Beske & Stefan Seuring, 2014). Several researchers have identified SSCM best practices and have theorized a variety of ways to most effectively implement them. Pagell and Wu (2009) postulate that the mindset of a company is the true foundation of the effective sustainable management of the supply chain. A company’s mindset influences the way it hires and trains its employees, the way it strategizes, and the workplace culture; the support of which makes “the dissemination and acceptance throughout the company of sustainability values much more likely” (Philip Beske & Stefan Seuring, 2014). That being said, true sustainability lies at the intersection of environmental, social, and economic areas of development (Craig R. Carter & Dale S. Rogers, 2008). Beske and Seuring (2014) also provide insight into the most common SSCM practices through the identification of five categories; orientation: a dedication to the TBL, continuity: SC partner development and long-term relationships, collaboration: enhanced communication and transparency, risk management: certifications and pressure group relations, and proactivity: innovation, life-cycle assessments, and stakeholder relations. SSCM lies in the understanding that a firm’s

impact extends beyond just a single process in the product life cycle, and instead it assumes responsibility from product design to disposal (Alison Ashby, Mike Leat, & Melanie Hudson-Smith, 2012; Sharfman, Shaft, & Anex, 2009).

Sustainability is a topic that has come to the forefront of academic research in recent years, but is an area where much more headway is necessary to fully be able to understand all of its facets and implications in the world of business. Companies that pursue the TBL approach are able to transform processes in their supply chains and invest in quality relationships with suppliers and external stakeholders while engaging in sustainability (Philip Beske & Stefan Seuring, 2014). Some researchers describe the relationship between a company's sustainability in its supply chain and its overall performance. Kumar, Teichman, and Timpernagel developed a model that can be used to help companies eliminate waste within the supply chain and argue that this reduction of waste and the practice of closed loop economics will make the supply chain and therefore the company more profitable overall (Kumar, Teichman, & Timpernagel, 2012). Wieland and Handfield argue that the concept of outsourcing has been one of the most important innovations in supply chain management in recent years as it forced managers to begin to think differently. This transformation and shift towards a supply chain way of thinking is helping to make products more sustainable and their source more transparent (Wieland & Handfield, 2014). These researchers conclude that there is significant and bidirectional correlation between sustainable supply chain performance (SSCP) and a company's financial performance (FP) based on margins and revenue. This relationship is not stagnant: SSCP and FP vary based on macroeconomic conditions and geography. During bull markets the correlation exists, but during financial crises the relationship between

SSCP and profitability disappeared. The relationship also varies by location. For example, in Africa, no correlation was found to exist between SSCP and firm profitability (Eduardo Ortas, José M. Moneva, & Igor Álvarez, 2014).

We have seen that SSCM is an ever-increasing area of research interest. The remainder of this literature review illustrates additional areas of research surrounding SSCM in firms; assessing the ways in which SSCM performance at a firm is measured, the relationship between SSCM and firm financial performance (FP), and the effect of stakeholder influence on SSCM.

Sustainability Performance measurements of SSCM

Every successful business uses performance metrics for its departments, projects, and employees in an effort to quantitatively and qualitatively measure what is happening within the company and how newly implemented programs are performing. Significant reasons for measuring general supply chain performance include recognizing problems or bottlenecks in processes, evaluating progress towards goals, emphasizing which goals were met, and offering insight into what the next steps should be in the future of the organization (Ahi & Searcy, 2015b; Angappa Gunasekaran & Kobu, 2007; A Gunasekaran, Patel, & McGaughey, 2004; Stefan Holmberg, 2000). It is evident in the existing literature that SSCM is a rapidly growing field, but Ahi and Searcy (2015a) point out the need for research that focuses on the intersection of SSCM and sustainability metrics.

Hervani (2005) states that green supply chain management (GCSM), otherwise known as SSCM, “is concerned with inter-organizationally sharing responsibility for various aspects of environmental performance” which makes creating quantifiable

performance metrics exceedingly difficult as supply chains become more global in nature. Even so, theoretical frameworks of measurement have been proposed to fill previously identified gaps in the literature. A systems model identified as “Implementation and Operation of green supply chain performance measurement system (GSCM/PMS)” takes the system boundaries of “external pressures” and “internal controls/pressures” and the system inputs, “metrics and measures” and “GSCM/PMS design” with “tools” to aid the design, and formulates results from them (Aref A. Hervani et al., 2005). This model provides firms a way to conceptualize their measurement systems in terms of their supply chain and gives firms tangible results or outputs of their SSCM operations if they are asked to report their overall environmental impact, including waste streams and environmental stewardship (Aref A. Hervani et al., 2005). Schaltegger and Burritt (2014) approach their conceptual framework with the idea that

Performance measurement and management requires the definition of goals against which performance can be measured. The main priority of a corporate sustainability-oriented performance system is to measure, communicate and reduce the absolute amount of negative environmental and social impacts substantially and to contribute to a sustainability transformation of markets and society. This includes consideration of sustainability risks and opportunities of the existing supply chains. Three general sustainability strategies have been discussed in the sustainability literature and can be applied to improving supply chains – efficiency, consistency and sufficiency.

Schaltegger and Burritt’s paper goes on to provide performance measures for eco and

socio-efficiency such as carbon footprints (CO₂/product unit) or energy intensity (energy input/product unit).

SSCM and Financial Performance

The increase in adoption of SSCM in firms and the large number of articles and papers published about SSCM in recent years are quantifiable indicators of the importance of this field (Maisam Abbasi & Fredrik Nilsson, 2012). Beske and Seuring (2014) found that companies that hold sustainability as a core value throughout all of their business processes obtain a competitive advantage, which in some cases can impact the bottom line of the company by increasing its financial performance (FP). Several different researchers have analyzed the intriguing relationship between SSCM and firm FP, or corporate social responsibility (CSR) and FP. These researchers attempt to determine if firms that implement sustainable practices and are socially responsible are inherently more profitable and perform better as a result of the initiatives that were taken. Hart (1995) postulated that there are two different approaches to environmental policy, which is just a minute portion of SSCM. One approach is the compliance strategy where firms merely decrease pollution to adhere to environmental legislation. The opposite approach, prevention, is “a systemic approach that emphasizes source reduction and process innovation” (Hart, 1995). Russo and Fouts (1997) expanded upon those two strategies and conclude that firms which lean more towards the prevention strategy compared to the compliance strategy will have a vastly different resource base to work with, which will in turn positively “affect the firm’s ability to generate profits”. Russo and Fouts also found that the preventative strategy firms to have an increased level of innovation as opposed to the compliance firms.

In terms of sustainable, or ‘green’ innovation, it has been found that the intensity of green innovation is positively related to firm profitability and financial performance (Aguilera-Caracuel & Ortiz-de-Mandojana, 2013). On a more negative note, Aguilera-Caracuel & Ortiz-de-Mandojana’s research also concluded that rigorous government-imposed environmental regulations sometimes prevent innovative green firms from benefitting financially from their advanced environmental processes. One of the biggest benefits of implementing green or sustainable innovative processes and technology are operating cost savings (Hart, 1995). When the purchasing function is isolated, apart from the rest of the supply chain, SSCM is found to be positively related to net income and negatively related to cost of goods sold, which can have an impact on the bottom line profits of the company. A linear regression of the relationship between environmental purchasing, net income, and the cost of goods sold supports the researchers’ hypothesis that environmental purchasing is positively related to firm performance (Carter, Kale, & Grimm, 2000).

In a case study of Westpac Banking Corporation by Keating (2008), theoretical guidelines for company pursuit of a sustainable supply chain are outlined. Keating creates a framework showing that SSCM comes from increasing supply chain benefits, reducing supply chain risk, and reducing supply chain costs which will increase firm financial value, people value, and environmental value. Kumar analyzed the sustainability of Apple Inc. by subdividing its respective supply chains into product design, suppliers and purchasing, inventory management, packaging, transportation, and consumption and disposal during a period of time where the company was implementing an increasing number of sustainable practices into their supply chains. It was discovered that the

company's operating efficiency, financial leverage, and return on equity all increased significantly (Kumar et al., 2012). The conclusion was that implementing SSCM practices benefits both a company's bottom line and benefits its image and goodwill with customers.

Conclusion

Sustainable supply chain management is an important discipline in the business world. It has gained attention and popularity in recent years, and is currently being analyzed for the way in which its implementation affects companies. There is some evidence that SSCM implementation may positively impact the financial performance of the firm and contribute to overall firm success, as detailed above. One drawback of SSCM is that it is very hard to accurately and efficiently measure and track the related performance metrics. SSCM may have large impacts on other areas of operation within a company, including sales, distribution, marketing, and others. The following sections of the paper will discuss company brand and the impact that specific SSCM practices have on overall company brand using a case study example.

CHAPTER TWO

The Importance of a Strong Brand

Building a Company Brand

People in society consider hundreds of different brands daily. Company brands may mean different things to different consumers, but they may also be perceived similarly among homogeneous demographic groups. In the book, *The New Strategic Brand Management*, the essence of a brand is stated as “a name with the power to influence buyers” and evokes salience, exclusivity, and trust from the consumer (Kapferer, 2008). That is the penultimate goal of having a strong brand: to get consumers to purchase products and in turn generate large profits for a company. A brand is often the first and most recognizable touch point where consumers engage with companies, and it will dictate how their interaction with a company proceed from that point on. Wood suggests that “brands often provide the primary points of differentiation between competitive offerings, and as such they can be critical to the success of companies” (2000). The creation and management of a company brand is extremely critical to organizational survival, yet most companies struggle in building a brand and using it strategically. The challenges in branding come in part because a brand is primarily intangible. The company’s name, logo, product, and advertising are tangible and directly accessible by consumers, but the company’s culture, values, strengths, and goodwill from

clientele are not. These intangibles take time and effort to authentically create within a company, and are often challenging to control.

The essential end goal of a company is to make money either by selling a product or providing a service. Building and strengthening a brand can allow a company to leverage that brand as a strategic asset. Consumers are the ultimate end user of the product or service that is being provided and are the ones who govern the overall value of a brand through their interactions, associations, and beliefs about it. Brands influence consumer decisions, actions, and behavior in various different ways, and those actions in turn, have a significant impact on the company's overall success.

Merely the name of a brand can influence the perceptions that consumers have of it. One paper segments brand names into three separate categories: normal words, non-words from which a meaning can be inferred, and non-words with no fundamental meaning (Philipp Hillenbrand, Sarael Alcauter, Javier Cervantes, & Fernando Barrios, 2013). Consumers may purchase items differently if they can understand the meaning of the product by just reading the brand name. Branding is more than merely being able to reach customers with a recognizable logo and name that evokes some kind of feeling or emotion. Creating a brand should coincide with creating a specific position within the consumer market that encompasses the organization's product line. They can tell a story, create a vision, and take a stand. A company brand can take a multitude of shapes and forms.

Kapferer suggests that brands are built using either of two different methods: from product capabilities to central values, or starting with core values and working towards the product (2008). Building a complete brand from an original product and working

towards the central values of a company is effective only if the product or service being offered is uniquely innovative and gaining status and awareness in the marketplace. Often times the name of the product will become the brand as the original and differentiated aspects of the product is translated from tangible and practical benefits to an intangible image, and eventually into a brand. Adding new products or creating a product line extension can also support the transition from being just a company with products to a company with a brand that is recognizable and represents something larger than itself. Fitbit is a prime example. Their original product was the Fitbit Tracker that simply tracked the steps taken, calories burned, and quality of sleep for users. It used sensors and wireless technology to provide users with a vastly superior health tracking experience that no other product before it had provided. Consumers began to recognize the product's innovativeness and significance, and Fitbit began releasing different product line variations such as the Fitbit One, Fitbit Flex, and Fitbit Charge, each of which contributed to Fitbit becoming a highly recognizable and inspirational brand that promotes a happy, healthy lifestyle of fitness. The innovative product eventually transformed into the company's brand. Eventually, the brand that was created by the company from their differentiated products will begin to dictate what kind of products will be introduced in the future. Once a business has a core recognizable brand, it must make sure that all products and processes align with that overall brand. When Fitbit chose to extend the breadth of its products past exercise trackers, it needed to stay within its overall brand of promoting a happy and healthy fitness lifestyle. It chose to produce a wifi-enabled Aria smart scale that is compatible with any of the Fitbit trackers and records a person's weight and BMI. On the other hand, some brands are just created from

an insight or an idea without any special or innovative product to provide any tangible attributes.

Brand Equity and Valuation

From a financial point of view, a brand can be viewed as a distinct asset on the balance sheet. A brand can also be defined as the extent to which consumers relate to a company and its products, what attachments and associations they have with it, and how heavily they are invested in it. Most consumers can differentiate a strong brand from a weak brand from merely doing an internal and external search, and choosing whether that brand would be a part of their consideration set or not. The problem gets more complex when they are asked to attach a certain value to a brand. Typically, brand valuation refers to the brand from a financial point of view as a strategic asset. Brand equity moves past the creation and valuation of a company brand and represents the relationship between the brand and the customer; how the customer interacts with it, how invested they are in it, and what associations they have with it (Lisa Wood, 2000). Customers will often pay a higher price for the same product of a certain brand over the generically branded product option. What makes consumers choose a certain brand over another? Are consumers always brand loyal and indifferent to price disparities? Kapferer illustrates the concept that brands do indeed carry a financial value because they have created customers that are willing to stay brand-loyal and pay a premium for products associated with certain brands. He also suggests that brand equity is made up of two components: intangible assets and conditional assets. A brand can be considered an intangible asset on a company's balance sheet alongside patents and other similar elements. Brands can also

be simultaneously considered conditional assets, which is a point often overlooked by marketers. Kapferer states that “in order to deliver their benefits, their financial value, they need to work in conjunction with other material assets such as production facilities” (2008). A brand cannot exist without a product or service to support it. Products and services are the means by which consumers interact with brands each and every day, and are significant in the overall valuation of a brand.

There is an interesting relationship between corporate social performance (CSP) and brand equity. This relationship is explored by Wang (2010) when they propose “that social performance leads to enhanced brand equity and, conversely, brand equity positively influences social performance”. The effect of CSP activities on financial brand equity are affected by multiple different factors including the attitudes of the consumers towards the corporate social responsibility (CSR) activities and the relative success of the marketers’ communication strategy to consumers. Wang concludes that, although prior CSP does positively influence a company’s brand equity, a company’s brand equity does not in turn have a significant effect on a company’s future CSP actions, except in the case of very large firms (Hui & Ming Deanna Wang, 2010).

In this century’s society and economy, for a business to be widely successful, international brand recognition is important. There are numerous advantages for a company to have a global brand “including association with status and prestige, and the achievement of maximum market impact with a reduction of advertising costs” (Reza Motameni & Manuchehr Shahrokhi, 1998). The recent revolutions in information systems technology and manufacturing technology make it possible for companies to specifically tailor their product lines to sell in various different countries around the

world (Reza Motameni & Manuchehr Shahrokhi, 1998). Companies that compete to make their brands known globally have to overcome a big challenge in communication and cultural barriers to achieve the promise of increased global brand equity.

Eco-Branding

The mass-market, consumer-driven economy that most of the world operates in produces an extensive amounts of waste and has taken a toll on both our planet and our society at large. Many consumers feel either internal moral pressures or social pressures to change the way they buy and consume to prevent these problems from continually getting worse. Consumer willingness to pay a premium for a product that advertises its reduced package waste and its lack of harmful chemicals has changed the way products are marketed in recent years. Marketers for successful brands understand this trend towards eco-friendliness and organic, locally grown, reduced waste products and are capitalizing on the opportunity to target a specific market of eco-conscious customers. These brands or product lines are often called “green” brands in relation to their attention to environmental issues.

Not all customers are attentive to environmental issues or would be willing to purchase green branded products. Grant (2008) separated customers into segments based on their willingness to go green or engage in environmentally sustainable behavior. His research shows that 8-10 percent of consumers would be interested in a ‘dark green’ lifestyle, which includes more time-intensive and committed steps towards a sustainable lifestyle such as composting and micro-generation. 20-40 percent of consumers would be interested in a ‘light green’ lifestyle change such as purchasing a smaller car, carpooling,

and recycling paper and plastic. 60-80 percent of consumers are interested in participating in ‘no-brainer’ activities which benefit themselves as well as the environment, such as turning down the thermostat to save both energy and money. This important information can be used by marketers to know which kind of green consumers a new green brand or product should target.

The way a green brand is positioned in the market and the kind of consumers it is targeting is vital to the company’s or the product’s success. There are many strategic options to choose from for green brand positioning including functional and emotional positioning. Using a functional green positioning strategy builds brand associations through logical arguments and sound information regarding products. Emotional positioning uses more ethos in the advertising procedures than the functional positioning strategy does. This type of positioning causes consumers to feel good about themselves for contributing to a cause, allows them to display their beliefs and values in a socially visible way, and gives consumers the opportunity to experience the happiness and peace associated with a connection to nature (Patrick Hartmann, Vanessa Apaolaza Ibáñez, & F. Javier Forcada Sainz, 2005).

Brand Sustainability and Growth

Once a strong brand is created and has become widely known among a specific market of consumers, company brand managers’ focus turns to finding ways to both sustain and grow the brand. Brands do not follow a life cycle like products do; there is no way of knowing about how long a brand will stay strong and relevant to consumers in the marketplace. By setting goals and having a mindset of continuous improvement,

companies can drive brand value growth for years on end. Kapferer outlines various ways in which companies can sustain their brand for long periods of time including continuous innovation, communication and advertising, and the creation of market entry barriers (Kapferer, 2008).

Organizations need to continually look for ways to innovate or differentiate their product and marketing mix to stay relevant and interesting to consumers. Being innovative comes as an enormous challenge because progress in one area of the market becomes the new standard for performance in a very short time period. Brands are perpetuated and supported by the products and services that bear their name, so if the products and services are not innovative or differentiated from competitor products, then it can negatively impact the company's brand image. Knowing the competition within a given market segment is strategically important to the success of a business. Being second to market with a new technology or innovation can create negative perceptions surrounding a brand.

Communication and advertising are incredibly important to brand success. Customers are the ultimate purchaser and end-user of a product or service and they provide the company with a profit, so the more positive awareness and stronger connections that a customer has with it can benefit the brand. Kapferer suggests that "communication is the brand's weapon" (Kapferer, 2008). Communication directly influences consumer attachment to a brand and can reveal to the consumer essential intangible values that the brand embodies. Brands are substantially influenced by the advertising and communication efforts that convey them. Advertising is meant to both illustrate the attributes of the brand while comparing those attributes to competitor

products and instill the brand with values and principles that the target market of consumers can identify with (Tony Meenaghan, 1995).

The creation of barriers to market entry can give room for a brand to flourish without consumers being bombarded continuously with new brands and products. Kapferer describes the criteria which make a market attractive for new brands to enter into. When a product has a high volume, there is little product innovation, brand names are costly, there is little risk, customers choose products based on visible and tangible product characteristics, and when the necessary technology is attainable at a small cost, the market is suitable for new brands and companies to enter (Kapferer, 2008). For a company to both strengthen and sustain their brand, it is beneficial if they acquire or construct a robust product line that covers any variation of the product that a consumer might want to purchase. That way it makes their market harder to enter, and gives them a majority market share, adding strength to their brand. Kapferer proposes various barriers to market entry which a company can take advantage of. Such barriers include having costly factors of production, expert knowledge of technology and quality in the market, using image and advertising to lead the market, governing the relevant distribution channels for the market, and legally defending a brand against counterfeit products (Kapferer, 2008). Essentially, the harder it is for new products and brands to enter into new markets, the greater the opportunity for existing brands to strengthen and sustain their own brands.

In conclusion, there have been tremendous steps towards the implementation and measurement of sustainable supply chains, as well as its relationship with firm financial performance and stakeholder influence. There is also literature that explains how

company brands are developed and assess the strategic importance of having a strong brand. Despite this progress, significant gaps in the research still remain; no researcher has attempted to analyze the direct relationship between specific programs introduced to make the supply chain more sustainable at a single business and the direct effect on the development of company brand image. To better understand the relationship between sustainable supply chain program implementation and brand image, an in depth analysis of the programs and performance at Patagonia Inc., a leader in sustainable development, is presented and will be used to assess the connection between sustainable program implementation and overall company brand evolution.

CHAPTER THREE

Patagonia Inc. and Summary of Supply Chain Initiatives

Introduction

The outdoor clothing company, Patagonia Inc., began as an offshoot off the Chouinard Equipment Company, which made high quality mountain climbing gear without generating substantial profits (Chouinard & Stanley, 2012). The Patagonia line was created to be a profitable clothing company that that would keep Chouinard Equipment in the black; it was not created with the intention of being the model of a responsible company. As a result of employees realizing the environmental and social repercussions of doing business and taking responsibility for those repercussions, Patagonia has been able to completely transform their supply chain, making it more sustainable (or responsible as Patagonia would phrase it). The company's founder, Yvon Chouinard, stated that "doing the right thing motivated us –and turned out to be good business" (Chouinard & Stanley, 2012). Many different areas or segments of Patagonia's business reflect its environmental and social concerns and the work has been done to reduce its negative impacts.

Methodology

To collect background information about the general topic of supply chain sustainability as it relates to the environment and the economy as well as its relationship

with firm performance multiple different research databases were used. By searching various keywords including ‘sustainability’, ‘financial profitability’, ‘supply chain’, and ‘firm performance’ multiple useful articles with insightful topics and ideas were discovered on research databases including Science Direct, Business Source Complete (EBSCO), JSTOR, and Emerald Insight. These articles were used to gather information about the current scholarly conversation surrounding firms’ implementation of sustainable supply chains and the related impact on business.

The book, *The Responsible Company* by Yvon Chouinard was used to gather background information about Patagonia’s history, culture, and general sustainability efforts. The *Footprint Chronicles*, published by Patagonia, were used to understand the partners and suppliers at every level of Patagonia’s supply chain. Created by the company to increase the transparency of its supply chain, the *Footprint Chronicles* document dates, supplier partnerships, and decisions made about ethical and sustainable sourcing within the company. As reported in *The Responsible Company* the first release of the *Footprint Chronicles*

“traced five Patagonia products geographically from design, to fiber (at its point of origin), to weaving or knitting, to dyeing, to sewing, to delivery at our Reno warehouse... we also calculated carbon emissions, energy use, and waste, as well as the distance traveled from origin to warehouse.”

(Chouinard & Stanley, 2012)

100% Traceable Down Insulation Initiative

One of the most effective and transformational initiatives that Patagonia has implemented is the push for 100% traceable down feathers in products where goose down is an essential material. The Patagonia Traceable Down Standard was created in 2013 and outlines Patagonia's requirements regarding animal welfare issues when sourcing down feathers. There are 11 principles that make up the Traceable Down standard. Below are the first two principles.

- A. Down and feather must not be removed from live animals. Animals must not have been live plucked or molt harvested at any stage in the supply chain.
- B. Down and feather must not be from animals that are force fed during their life for any reason including the production of foie gras. (Patagonia, 2013)

Patagonia's motivation for implementing a standard for Traceable Down stemmed from its own values and mission statement, increasingly strict governmental regulations, customers' demands, and non-governmental organization (NGO) standards. Four Paws, an animal welfare organization, is one of the NGO groups which once campaigned against Patagonia's untraced down feathers (Patagonia, 2013). The down supply chain begins with the parent farm, where the greatest risk of live plucking to the bird exists. The eggs laid at the parent farm are moved to the hatchery and after hatching are moved to the raising farm for around four months. Here at the raising farm level of the supply chain, the birds are at the greatest risk of being force-fed. During force-feeding, a tube is pushed down the birds' throats so they will consume exorbitant amounts of food causing their livers to become fatty and enlarged and sold as the delicacy, "foie gras". This

process causes unnecessary harm to birds including depriving them of the ability to move or walk around because of their weight. After the raising farm, the birds are taken to the slaughterhouse where they are humanely killed primarily for their meat, but their feathers are the byproduct. Once the feathers are collected from the deceased birds, they are sent to the down pre-processor where the down is washed and separated from the feathers. Next, at the down processor, the down is washed and sterilized and then sent to the garment factory where the down is stored for use in Patagonia's products. Throughout the entire down supply chain, the guidelines established in the Traceable Down standard are required to be met by all suppliers. The parent farm, hatchery, and raising farm must not force-feed or live-pluck any of its birds. The slaughterhouse must only slaughter birds that fit the humane requirements and must observe animal welfare best practices. The down pre-processor and processors must follow strict segregation rules to ensure that the non force-fed and non live-plucked feathers and down are not mixed with any feathers from untraced sources. When down is delivered to the garment factory, each bag has a traceable down ID on it and the feathers are stored in a separate location to avoid mixing of feather content while workers are sewing garments for many different companies with different standards for their materials (Patagonia, n.d.-a; The Humane Society of the United States, n.d.).

Patagonia's efforts to transform their down supply chain from having no knowledge of the product origin to creating the Traceable Down standard mentioned above occurred over a period of time from 2002 to 2015. In 2002, Patagonia first reintroduced garments that use down feathers into their product line but did not examine where the supply of

down was coming from. Every few years, environmental impact assessments are done on different products and materials used to make Patagonia Inc. gear and garments. In 2007, the company took a close look at down feathers in this assessment, finding that globally, the poultry industry has a long history of mistreating the birds “including such things as caging, de-beaking, force-feeding and on the environmental side, polluting air and water” (Patagonia, n.d.-a). Patagonia also chose to send a strategic environmental materials developer to a bird farm in Hungary to gather information about the down supply in person; finding that the birds are not force-fed (which is later found to be untrue) and that the feathers are taken from the birds after death or during the molting period, which is confirmed not to be painful to the bird. In 2010 the animal welfare group, Four Paws, accused the company of using live plucked down. Patagonia refuted the accusation but subsequently found that force-feeding is an issue throughout Hungary, where most of their down supply was being sourced. In 2011, Patagonia employees went to Hungary in both February and August to investigate what was happening at each level of the goose down supply chain. The investigators recognized that the suppliers were force-feeding the same birds they used for down feathers, but were not live plucking then and took measures to ensure that the feathers were traceable from the parent farm to the slaughterhouse. Patagonia chose to work on implementing a better traceability system for the feathers from the slaughterhouse all the way to the down processor, since there was not a good existing system for documenting, labeling, and separating Patagonia’s down from other live-plucked material (Patagonia, n.d.-a).

Later in 2012, Patagonia turned its focus to various suppliers in Poland and began to audit the chain in order to “score down traceability management systems and access animal welfare” (Patagonia, n.d.-a). The independent chain of custody audit lasted three months and covered 12 plus sites during 7 field days. These sites were audited against the August 2012 Traceable Down standards and also the individual countries’ animal welfare laws. The traceability of the supply chain was examined in relation to “documentation trails, physical labeling and segregation of down, and management systems” (Patagonia, n.d.-a). The results from the robust audit in January of 2013 showed no live-plucking or force-feeding practices being used on any of the birds in the supply chain, as well as a traceability and documentation chain that facilitates the segregation and labeling of all of the down feathers. The entire Ultralight Down clothing line was released using 100% traceable down in 2013. In 2014, Patagonia was able to use only traceable down in all products that use down as a material. The company has also committed to collaborating with other suppliers, companies, and brands to establish uniform down traceability standards across the industry. Now, in 2015, Patagonia has asked NSF International, an independent public health organization, to implement their Traceable Down standard as the foundation for an even more comprehensive global standard. This standard was eventually adopted as the “highest tier” globally, as not all industry participants are able or willing to conform to this standard. In January of 2015, NSF also launched the NSF Global Traceable Down Certification Standard for companies who are involved in the down industry to use in examining their own supply chains.

Merino Wool Sourcing & Reclaimed Wool

In 2005, Patagonia became involved in a project for sourcing wool that was free of any ties to harming the environment or mistreating any animals used to make the product. The company sought to make sure that the sourced wool came from sheep raised on a ranch where mulesing did not occur, and where native grasslands would be restored after depletion. Mulesing is a technique used to avert sheep from flystrike damage (Patagonia, n.d.-b). Mulesing a sheep involves cutting away portions of skin surrounding the tail and buttocks area of the animal, creating a smooth area of bare skin where blowflies will not be attracted to lay eggs. While this prevents sheep death by flystrike and maggots, it is a painful and distressing procedure to the animals and is not considered a humane animal husbandry practice. There are other, more humane and responsible ways to prevent flystrike in merino sheep including breeding for traits known to reduce flystrike, using clips, or giving the animals special injections (RSPCA Australia, 2015). After review of different wool providers, Patagonia worked to find more reliable sources in Australia and New Zealand for their wool garments, and even delayed the production of different merino base layers while trying to prevent the purchase of untraced wool. In 2011, Patagonia chose to enter a relationship with Ovis 21. The goal of the partnership between the two organizations was to “develop a radical new way to grow wool—one that regenerates rather than depletes grassland, keeps alive a way of life in the Patagonia region, and produces wool of unprecedented quality for our next-to-skin clothing” (Patagonia, n.d.-b).

Preliminary discussions with Ovis 21 about animal welfare topics like mulesing and animal warmth convinced Patagonia that mulesing did not occur since the blowfly does not inhabit the area in Argentina where Ovis 21 sheep are raised. In addition, the employees leave the merino sheep with enough wool to keep them adequately warm during the winter and do not engage in the dangerous practice of exporting live sheep from the country, which physically harms the animals (Patagonia, n.d.-b). Knowing these important details about what methods and practices are used by Ovis 21, Patagonia did not see a reason to complete a full and expensive audit of the organization's animal welfare practices. In 2012, Patagonia took steps to incorporate more wool fibers from Ovis 21 into more of its garments such as socks and baselayers. After recognizing the need for a standardized approach to responsibly sourced wool, Patagonia began working with the Textile Exchange to create a Responsible Wool Standard (RWS) that will "ensure a responsible, consistent approach to treating sheep and lambs that meets 21st century moral standards of the ethical treatment of animals. It is our hope that this global standard, when completed, will protect animal welfare, influence best practices, ensure traceability, and ultimately give consumers clear and trustworthy information that will allow them to make responsible choices" ("Patagonia Fabric: Organic Wool - Patagonia organic wool follows strict organic standards for production," n.d.). In late 2014, Patagonia had switched the production of all merino wool baselayers to use wool from Ovis 21, and began to examine openly sourced wool going into other small garments like hats and gloves, and trying to find a way to change suppliers and make sure all wool is responsibly sourced. In the summer of 2015, Patagonia's Social and Environmental

Responsibility Team continued their work in leading the industry in creating and eventually implementing the Responsible Wool Standard (Patagonia, n.d.-b).

In August 2015, PETA (People for the Ethical Treatment of Animals) released a graphic video showing workers inhumanely treating the animals from the Ovis 21 farms with images “of castration; of tail docking; and slaughter of lambs for their meat” (Patagonia, n.d.-b). Because the wool from these sheep is eventually processed and spun into garments created with the Patagonia brand name on them, the company took full responsibility for what was done throughout their supply chain. The company noted their failure to create and implement a process that could assure animal welfare and humane practices during the castration, shearing, and slaughtering of the sheep (Patagonia, n.d.-b). On August 17, 2015 the CEO of Patagonia, Rose Marcario, wrote a letter including details about the company’s reaction to the Ovis 21 video. It stated that Patagonia had made the decision to cease purchasing wool from Ovis 21. The company is dedicated to the transformation of their wool program, and stated that no more wool would be purchased for use in garments until they conclude that their suppliers have a safe, humane, and verifiable process for sourcing the wool in a way that treats the animals well (Patagonia, n.d.-b). This case stresses the importance of a company reacting and taking action on a problem that occurred within their supply chain.

Patagonia Denim and Organic Cotton

Patagonia has long described the manufacturing of denim jeans as a filthy process because of the use of conventionally grown cotton fibers and the water and energy

intensive synthetic indigo dyeing process. An important sustainable and ethical sourcing success at Patagonia has been the transition from using conventionally grown cotton in garments, including denim, to using only organic cotton. The USDA's National Organic Program describes the standards for organic operations, stating that the company "must demonstrate that they are protecting natural resources, conserving biodiversity, and using only approved substances" to be considered organic. Around 1990, Patagonia learned that conventionally grown cotton grown in California was covered in nearly 7 million pounds of chemicals in a single year. The chemicals, synthetics, and additives were harming the plant and animal life in the area, as well as damaging the soil, water, and air ("Patagonia Fabric: Organic Cotton, alternative to Agricultural Chemicals Required for Conventional Cotton," n.d.). Procurement specialists at Patagonia were tasked with the goal of finding out how to source organically grown, high quality cotton and found that this more sustainable and environmentally friendly option was an extremely costly move. In the Footprint Chronicles the high price was mentioned, stating, "Organic farming is more time consuming, requires more knowledge and skill, and, for now, costs more. But it's worth it" ("Patagonia Fabric: Organic Cotton, alternative to Agricultural Chemicals Required for Conventional Cotton," n.d.). In 1996, Patagonia began to exclusively use organically grown cotton in their garments even though there were serious financial risks associated with the move. In the end, the transition to organic cotton marked a changed attitude and mindset for the company to be environmental stewards and commit to what is written in the company mission statement.

Once the choice was made to source only organically grown cotton, the company had to find a way to label and track the material to make sure that the cotton being received and used in the garments is actually grown organically. Distinguishing organically grown cotton from conventionally grown cotton is a challenging task that requires third party certification bodies to issue certificates to the farms that abide by the USDA's National Organic Program standard. The farms, factories, and shipping companies that receive these certificates are required to label the organically grown cotton and separate orders of organic cotton from conventionally grown cotton. This additional accountability for tracking where the cotton comes from ensures that Patagonia is accurately labeling all of its garments and is being transparent with its customers about where their products are coming from ("Patagonia Fabric: Organic Cotton, alternative to Agricultural Chemicals Required for Conventional Cotton," n.d.).

Though it is much better than growing and processing conventional cotton, even growing, processing, and weaving organically grown cotton takes resources and energy from the earth that the organization cannot replace. Realizing that too many garments and products made of cotton are thrown into a landfill even before the end of their useful life, Patagonia sought to make a change. There had to be a way to save the excess cotton waste leftover from the production of garments. Patagonia chose to partner with TAL Group, a large garment manufacturer with factories in China and Malaysia, to save cotton scraps off the floors of factories. The scraps from the cutting room are repurposed and spun into fully functional cotton fabrics by weaving some of the reclaimed cotton with virgin cotton. The company suggests, "the leftovers from 16 virgin cotton shirts can be

turned into one reclaimed cotton shirt” (Patagonia, n.d.-c). This quickly adds up to a lot of saved resources and materials in factories as large as TAL Group’s (Patagonia, n.d.-c).

Many garments produce an environmental impact beyond the type of material that goes into them. The weaving, dyeing, and sewing processes are just as important to understand. Patagonia began to realize the impact of the textile industry as a whole on water sources, especially in more disadvantaged areas and third world countries where most of the textile mills are located. Dyeing jeans with indigo is extremely harmful to the environment. In China, the Pearl River runs a deep blue-ish purple into the South China Sea because of the upstream denim factories in Xintang (Chouinard & Stanley, 2012). In *The Responsible Company*, the authors note that the World Bank discovered at least 72 toxic chemicals in water that originated from a textile mill. The chemicals from the dyeing process can lead to employee health problems and are usually illegally returned as wastewater into rivers, affecting plant and animal ecosystems and impacting the ability of residents to use the natural streams for drinking water (Chouinard & Stanley, 2012).

Abiding by the ideals and standards in its mission statement, Patagonia chose to do something about the horrific impact of the dyeing process on the world’s slowly depleting supply of freshwater. The company chose to require all of its textile mills to thoroughly treat the wastewater up to specified standards before returning it to natural sources (Chouinard & Stanley, 2012). Swisstex California, owned by Michel Morger and Thomas Schrieder, sought to create a facility that would use innovative dyeing processes to reduce the amount of water used to dye clothing and effectively treat the wastewater to enable recycling and return of the water to its sources. From using computerized

monitoring systems and controls, to operating a heat recovery system for the wastewater, to having automated dye machines that reduce error, Swisstex is able to fulfill large orders of dyed garments correctly the first time and use half as much water as an average US dyehouse. Because of the focus on fulfilling orders correctly with superb quality the first time, Swisstex actually has a lower total cost than its less innovative and more wasteful competitors. Patagonia does not have to scrap or re-dye any poorly dyed fabrics and therefore finds its relationship with Swisstex earns them higher margins and more profitability on their garments (Chouinard & Stanley, 2012).

In the category of organically grown cotton, reduced water waste, and cleaner dyeing processes, Patagonia chose to focus on their line of denim. This denim uses only organically grown cotton as outlined by the USDA's National Organic Program standard. The company also created their own innovative dyeing process that uses less water, energy, and chemicals than normal synthetic indigo dyeing does. The innovative dyeing process uses chemicals that bond color to the cotton fabric more easily and readily than traditional synthetic indigo does. That is what allows the process to use 84% less water, 30% less energy, and emit 25% less carbon dioxide than traditional denim dyeing processes (Patagonia, 2015b).

CHAPTER FOUR

Discussion and Conclusion

Patagonia's Brand Image

Patagonia's actions as a company are centered around its mission statement, "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis" (Chouinard & Stanley, 2012). Mission statements are important factors in contributing to company's corporate identity (Leuthesser & Kohli, 1997) and with time, exposure, and relevant strategies, the mission statement can eventually transform the brand image of a company. The brand image of Patagonia represents what the company stands for and serves as a platform for making decisions about the future of the company. New strategies, initiatives, and decisions must align themselves with the mission statement and brand image of the company. In the previous chapter, the detailed description of three different supply chain initiatives implemented by Patagonia exemplifies how the company brand is intricately woven into each program it supports. This relationship between a company's brand and its supply chain strategy is not unidirectional. The specific implementation of various different supply chain initiatives has positively impacted and contributed to the strong brand of Patagonia Inc. as much as the overall brand has impacted the kind of supply chain decisions that are made. Because of the strategic supply chain initiatives at Patagonia surrounding the creation of a completely traceable supply chain of down feathers, the

responsible sourcing of merino wool, and the emphasis on purchasing organic cotton to make denim in a cleaner way, Patagonia's brand has been impacted and shown to value transparency, responsibility, and passion.

Transparency

Transparency within a business involves the commitment by a company to be truthful in their communication, open with details regarding operations, and accountable for their actions. Patagonia has made a strong point to be completely transparent with its customers about the various strategies, initiatives, and decisions made within the company. This transparency extends all the way through the supply chain of the company, and is most readily apparent in the publishing of the Footprint Chronicles online. Patagonia's Footprint Chronicles map out important details surrounding the sourcing of materials and labor and the manufacturing Patagonia products. It includes a map of all the textile mills, farms, and factories that are a part of creating products for the company. From informational videos to detailed timelines of the company's efforts in various areas of its supply chain, the Footprint Chronicles offers a plethora of information full of real, transparent facts about the way Patagonia runs its business.

A company's commitment to transparency is tested when things go wrong. It is easy to have open communication and be truthful about events that are occurring when things are positive and everything is good. During its efforts to find more responsible ways to source wool from merino sheep, Patagonia formed a partnership with Ovis 21 that would require the sheep to be treated humanely and the grasslands on which they fed

to be restored and replenished. PETA's video of Ovis 21 showed workers cruelly and inhumanely treating the animals, and Patagonia was required to respond. Rather than publishing a general, blanket apology lacking vital information, the company's CEO chose to write a letter, published on the Footprint Chronicles website addressing the Ovis 21 issue. The acknowledgement of wrongdoing and the commitment to fixing the problem marked true transparency between the company and its customers. A situation fraught with lots of bad press was handled with true transparency, allowing Patagonia to accurately and effectively display its values on a large scale and contributing to its overall company brand.

Responsibility

Patagonia's brand emulates responsibility. The company believes that this includes understanding the ultimate impact of doing business, seeking to mitigate those negative impacts, and doing the right thing always, even if it's not "good business" (Chouinard & Stanley, 2012). This theme of responsibility within Patagonia's brand is supported by their supply chain initiatives. Specifically, their work with sourcing organic cotton grown without the use of harmful pesticides and the innovative, cleaner way of manufacturing denim has impacted the way their brand is viewed. Neither of these decisions were made because it would be of ultimate benefit to the company. The company made the decision to work with organic cotton farmers, even though purchasing raw materials from them is vastly more expensive than purchasing conventionally grown cotton. Patagonia chose to invest money into researching a new way to dye denim, even

though research and development expenditures require a huge amount of capital. But financial gains are not the sole reason for the Patagonia's existence as a company. Their mission statement says that their goal is to do the right thing by both people and the planet, and to mitigate the damage business inflicts upon both entities. This firm commitment to doing the 'right thing' and unwavering obligation to live out their mission statement through their supply chain initiatives shows the true responsibility ingrained into Patagonia's brand image.

Passion

Patagonia has a strong passion for the environment and all of its inhabitants. This passion is the driving force behind the company's mission statement. Sourcing completely traceable down feather insulation for its products was one of the first and most important initiatives the company was involved with. The task was not easy, tracing feathers through the various stages of sourcing. Nobody else in the garment manufacturing industry had forged the path for the creation of a no-tolerance policy for force-feeding or live-plucking the birds throughout the entire supply chain. Patagonia created guidelines for responsible down sourcing in the Traceable Down Standard, and even chose to work towards making it a global standard with NSF International. Eventually NSF chose to adopt Patagonia's Traceable Down Standard as their "highest tier" of animal welfare practices (Patagonia, n.d.-a). Patagonia exemplifies its passion through being an industry leader in innovation and sustainability practices.

The Telling of a Story

Patagonia's supply chain initiatives not only contribute to the brand by exemplifying themes of transparency, responsibility, and passion; but also help to position the brand in the marketplace by telling a story and providing an experience for its customers. The company's founder, Yvon Chouinard, has written books about his experiences and about the creation of Patagonia as it is today. *Let my people go surfing: the education of a reluctant businessman*, written by Chouinard, is a memoir of his own life, the story of a unique business venture, and an informative tale about human impact on the environment and what we can learn from it (Chouinard, 2005). *The Responsible Company*, written by Chouinard and Stanley depicts the way in which Patagonia's supply chain and company strategies align with their mission statement and why it is important for them to continue taking steps toward being a responsible company. It also gives other companies checklists and guidelines about how they too can become more ethical and responsible in their business practices (Chouinard & Stanley, 2012). The company is a unique and special one that seeks to tell a story throughout all its relationships, and its supply chain initiatives tell a particularly special story about making the world a better place and being responsible in the face of irresponsibility at the hands of countless others.

The Story: making the world a better place

Patagonia's supply chains tell a story within themselves that is unique to the company. The effort and the research and the passion it took to create and support the complex supply chains contribute to the company's brand. From the three detailed

examples of ways in which Patagonia sought to restructure and reinvent their cotton, wool, and down feather supply chains; it is evident that Patagonia is making the world a better place to live. This is the story that the brand is attempting to convey; and this is the story that embodies the mission statement of the company.

The company supply chain is the main driver and the main player that exhibits this effort to make the world a better place. It is the vehicle through which the company can create the change and make the difference they want to in the world. For example, to leave less impact on the planet and do less harm, the company chose to find a new way of dyeing denim. Patagonia is striving to lessen the impact and be an agent of change in the business of producing denim. The process of recognizing the problem, being transparent about the issues with current denim production, the research that went into finding ‘cleaner’ ways to produce denim, the commitment to a sustainable and ethical cause, and the successful production and marketing of a product tells a story in itself of a company that works hard and overcomes challenges because they are motivated to do the right thing by the environment and by the people who live in it, not only by money. Through advertising, the company is able to leverage its supply chain to tell a story with its brand, and position itself as a premier outdoor adventure company that makes quality, lasting products which are sourced sustainably while having the least impact on the planet as possible.

Marketing Campaigns tell a story using the supply chain

Patagonia has had great success with many of its recent marketing campaigns that

highlight some of their sustainable supply chain initiatives. The most fitting example of how their marketing campaigns tell the story of the work within their supply chain again comes with their new line of Patagonia denim. The following are the three telling graphics from their ‘cleaner’ denim campaign.



(Patagonia, 2015a)



(Patagonia, 2015c)



(Matt Locascio, 2016)

First, the advertisements clearly lay out the fact that making jeans is a ‘filthy business’. It’s dirty, it causes pollution, it uses harmful chemicals and there’s no good way to do it – they are transparent about that fact. Next, they explain that they’re going to change that. This illustrates the company’s brand image as a challenger in the industry; they are always out to change the status quo and improve the world by doing it. The last graphic shows how they made the change. It distinguishes the product from other denim products. These graphics that were a part of Patagonia’s denim campaign tell the story of how they reinvented and reworked the denim supply chain to benefit to both the environment and the customers who purchase the denim.

One of the most successful and engaging campaigns that the company has had in the past few years started out as a Black Friday and Cyber Monday advertisement for the

company. The ‘don’t buy this jacket’ advertisement sparked controversy and conversation among consumers and once again showed that Patagonia is a challenger in the retailing industry and is not always solely out for financial gain.



(Patagonia, 2011)

This advertisement goes completely against what most companies are begging consumers to do on Black Friday and Cyber Monday; it asks you *not* to buy the product. Written in the body of an email sent to their customers, the company states “Because Patagonia wants to be in business for a good long time – and leave a world inhabitable

for our kids – we want to do the opposite of every other business today. We ask you to buy less and to reflect before you spend a dime on this jacket or anything else” (Patagonia, 2011). The company would rather sell one quality jacket that will last the customer decades rather than sell thousands of jackets only to have them fall apart soon so that another can be purchased in its place. This advertisement highlights the importance of using less because the company knows the direct impact of the production of just a single jacket on the environment. This advertisement tells a story in just one picture that causes the customer to reflect internally and realize the impact of their purchasing habits on the environment. This advertisement adds to Patagonia’s brand image by showing that they are an altruistic company; they do not think about the normal measures of business success, they think about their impact on the planet and on people, and choose responsibly. They tell a story and people have a way of connecting to that. People are engaged and interested in the story that Patagonia tells. They are fascinated and excited by what the brand has to offer, and that is likely one of the largest assets that the company has – its brand.

Summary

Usually a company’s brand ends up dictating what kind of supply chain the company must have. Patagonia is different. Patagonia’s strategic analysis of their supply chain and sustainable procurement initiatives are the primary driving force behind their strong brand. This is the future of business. Supply chain strategy is becoming more of a strategic asset and competitive advantage for companies than it used to be when it was

merely a tactical, routine departmental function in most businesses. One of the ways the supply chain can be used as a strategic asset is when the functions and strategies within the supply chain department support and add to the brand image of the company.

SSCM initiatives can grow company brand image and re-position the company in consumers' minds. Various sustainable sourcing and manufacturing initiatives can differentiate company products and distinguish a company as an innovative challenger in its field. Through effective communication with its customers and strategic advertising campaigns, a company can grow its brand image by aligning its corporate goals and strategies with its supply chain initiatives.

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