

Patagonia: Earth is Now Our Only Shareholder

“We need to make less, and whatever we make should be of high quality and long-lasting to better offset its social and environmental price.” Yvon Chouinard and Vincent Stanleyⁱ

In September 2022, Yvon Chouinard, his wife, and two adult children gave away the economic rights to a \$3 billion corporationⁱⁱ. The company, Patagonia, supplies a variety of clothing and outdoor gear and will continue to do so as a for-profit company even after the giveaway. However, going forward, 98% of profits will go to the Holdfast Collective, a not-for-profit dedicated to combating climate change. The other 2% will be held by Patagonia Purpose Trust, a vehicle to control the company going forward.

The Start of a \$3 Billion Company

Informally started in 1957, Chouinard Equipment was officially incorporated in 1965 to supply climbing gearⁱⁱⁱ. After a few years in business, Yvon Chouinard became increasingly worried about the environmental impact of the company’s key product, pitons. Pitons are metal spikes that are hammered into rocks by climbers. This destroys the rock face over time. As an alternative, the company moved to selling aluminum chocks, which cause much less damage. In addition to moving away from pitons, the company started to diversify into clothing items such as rugby shirts. In 1973, the clothing and outdoor equipment company, Patagonia, was established^{iv}.

Patagonia began to make significant investments into the research and design of outdoor clothing. In the early 1980s, the company embraced vivid colors, giving the clothing a more visually appealing style^v.

After years of growth, Patagonia experienced a setback in 1991, when it laid off 20% of its workforce due to recession^{vi}. However, the company remained committed to improving life for their employees, including setting up an onsite daycare center for

employees with children. Patagonia also made clear efforts to support their community in Ventura, California. Supporting the work of 25-year-old biology student, Mark Capelli, Patagonia adopted the “dead” Ventura River. Capelli showed that despite water diversion and a sewage plant, the river still had an ecosystem, leading the company to help clean up the Ventura^{vii}.

A Company Committed to More than Profits

In 1986, Patagonia committed to giving 10% of profits away to small environmental groups working to save or restore habitats. This was eventually changed to 1% of all sales, a commitment not conditional on Patagonia making money during a given period.^{viii} Indeed, Patagonia helped establish the organization 1% for the Planet^{ix}.

1% for the Planet is a global movement inspiring businesses to support environmental solutions through annual memberships and everyday actions. We advise on giving strategies, we certify donations and we amplify the impact of our network.^x

In 2011, Patagonia acquired certification as a B Corporation, an entity committed to helping a range of stakeholders. (See Table 1 for Patagonia’s certification scores.) Patagonia also became the first California company to register as a public benefit corporation^{xixii}. In the years that followed, it regularly featured on B Labs’ “Best for the World” list of companies most committed to responsible management.

Table 1. B Certification Scores for Patagonia

Date Certified	12/22/2011	10/17/2014	11/14/2016	4/21/2020
Governance	14.7	17.1	17.3	16.9
Workers	25	24	24.9	20.8
Community	19.9	30.9	58.7	63.8
Environment	47.5	34.7	44.8	43.5
Customers	0	7.1	5.8	6.3
Total	107.3	113.9	151.5	151.4

Activism is central to Patagonia. The website prominently displays information on actions customers can take. The tab Patagonia Action Works presents relevant stories,

details of “who we support,” and specific campaigns related to climate justice, nature protection, and environmental justice^{xiii}.

Patagonia Products

Patagonia is committed to quality. Its products undergo various tests and use special, high-quality materials. For these reasons, Patagonia products have been a favorite brand for outdoor enthusiasts. The brand has also struck a chord with general consumers who care about the environment.

Patagonia products do not, however, come cheap. “The average Patagonia jacket will cost you upwards of \$300”^{xiv}. The Patagonia brand itself adds something to the clothes it adorns. Brand Finance values the brand alone at \$350 million^{xv}.

Patagonia aims to use many recycled materials in its products. Transparent details on the website informs those interested in how the products are made. For example, the product detail page for the Men's Capilene® Cool Lightweight Shirt comes with a section explaining “how it’s made”: Fair Trade, recycled polyester (87% of the line uses recycled materials), odor-control additives, and bluesign® System (a third-party certification that verifies safety for the environment, workers, and customers in the supply chain). It also explains where the product was made, by what supplier, and its environmental impact^{xvi}.

In return for high prices, Patagonia offers superior customer service. The idea is that high-quality products are made to last, so the company offers to repair its products and shares information on how customers can make their own basic repairs and take care of them to prolong their life^{xvii}.

While Patagonia strives towards sustainability, Chouinard has rejected the idea that the company is sustainable, noting that it still takes more from nature than it gives back. Instead, he prefers the term “responsible” company.

*“Responsible’ seems to us the apt, more modest, word to use
[compared to sustainable] while we walk the path that, we hope, leads*

us to a place where business takes no more from nature than what it can replace.” Yvon Chouinard and Vincent Stanley^{xviii}

‘Don’t Buy This Jacket’ and Worn Wear

Patagonia’s philosophy is exemplified by its Common Threads Initiative. This initiative urges consumers to buy only what they need, repair salvageable clothes, and re-use or recycle.

The contradiction of a growing firm asking consumers to be more careful in their purchases has not been lost. The Patagonia team embraced this. In 2013 they ran what has become a classic advertisement leading up to Black Friday (the day after US Thanksgiving, a massive shopping day). Running in *The New York Times* and other mainstream publications, it said, “Don’t Buy This Jacket.” The intention was to encourage consumers to make more considered purchases.

*“We’re at the opposite spectrum of big brand disposable fashion....We’re about making great quality products that are designed to last, so we have a lifetime warranty on our products.”
Jonathan Petty, Patagonia’s European marketing director.^{xix}*

Furthermore, Patagonia has a prominent link on their website to their Worn Wear market. Here, consumers can buy pre-used clothing, which come at a notable discount compared to new products. Patagonia calls this “Better Than New Gear.”^{xx}

Demonstrating the Mission

An increasing number of organizations are dedicated to verifying Patagonia’s claims. In addition to being a B Corp, Patagonia uses bluesign®, a group based in St. Gallen, Switzerland, which checks the impact of Patagonia’s supply chain^{xxi}. Patagonia does not own any factories but outsources manufacturing, so it partnered with Fair Trade USA. The aim is to ensure that workers in the factories producing its products are treated well.^{xxii}

Broadly speaking, outside observers are convinced that Patagonia is doing a good job with its environmental and social missions.

“We’ve given Patagonia an overall rating of “Good,” based on our own research. This brand lives up to the standards it set itself by pushing for sustainability across the board. We’re glad to see the brand improve over the years. To build on that great work we recommend that Patagonia looks at preventing deforestation, paying a living wage across all of its supply chain, and keep reducing the amount of animal-derived materials it uses.” Good On You^{xxiii}

Patagonia often tops lists of environmentally responsible companies. For example, GrowEnsemble ranked it number one in its 2022 list of 15 sustainable companies^{xxiv}.

How to Give Away a Company

In September 2022, Chouinard and his family made an extraordinary decision. They gave away ownership of Patagonia to two separate entities.

- 98% of the ownership rights went to the Holdfast Collective. This would receive dividends and used the funds to pay for environmental projects^{xxv}.
- 2% of the ownership went to the Patagonia Purpose Trust. This would hold all the voting rights and ensure that Chouinard’s Values are upheld^{xxvi}.

There were other alternatives for the 83-year-old Yvon Chouinard to yield control.

“Another path was to take the company public. What a disaster that would have been. Even public companies with good intentions are under too much pressure to create short-term gain at the expense of long-term vitality and responsibility.” Yvon Chouinard^{xxvii}

A similar concern was raised about selling the company and donating the proceeds to charity. The founder did not want Patagonia to change its mission, which would have been within the legal rights of any new owners who purchased the firm.

Transferring the company to a trust led to some complexities, including a \$17.5 million tax bill for Chouinard to pay^{xxviii}. The Holdfast Collective is a 501(c)4 nonprofit, which, unlike the closely related 501(c)3, can make unlimited political donations. Tripp Lite (an electronics firm) was donated in a similar manner and then sold by the Marble Freedom Trust. This used profits to support conservative political causes. Some even noted that by giving away the company, worth about \$3 billion, the Chouinard family did not pay the \$700 million or so in taxes that would have been due had the firm been sold.^{xxix}

In September of 2022, Patagonia became a new type of for-profit company. In the words of Yvon Chouinard:

*“Instead of ‘going public,’ you could say we’re ‘going purpose,’” and
“Earth is now our only shareholder.”^{xxx}*

Appendix: Patagonia's Values from their B Lab Registration

Core Values

Patagonia, Inc.'s values reflect those of a business started by a band of climbers and surfers, and the minimalist style they promoted. The approach they take toward product design demonstrates a bias for simplicity and utility.

Build the best product

Their criteria for the best product rests on function, repairability, and, foremost, durability. Among the most direct ways they can limit ecological impacts is with goods that last for generations or can be recycled so the materials in them remain in use. Making the best product matters for saving the planet.

Cause no unnecessary harm

They know that their business activity—from lighting stores to dyeing shirts—is part of the problem. They work steadily to change their business practices and share what they've learned. But they recognize that this is not enough. They seek not only to do less harm, but more good.

Use business to protect nature

The challenges faced as a society require leadership. Once they identify a problem, they act. They embrace risk and act to protect and restore the stability, integrity and beauty of the web of life.

Not bound by convention

Their success—and much of the fun—lies in developing new ways to do things.

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