

MSc International Innovation Management

Introduction to Innovation Management Assessment B

Innovation of Patagonia's WornWear program.

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a) The principal drivers for the innovation.

An outdoor clothing and gear brand, Patagonia have been sustainable leaders within business from the beginning. Founded by Yvon Chouinard in 1973, where the mission statement for the first 45 years was to “build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.” (Mission Statement, n.d.), and now the mission - “we’re in business to save our home planet.” A new statement for a brand with a bigger vision. Patagonia’s approach to their product comes from function, repairability, and most importantly, durability (Patagonia, 2022).

The innovation chosen is the Patagonia Worn Wear service, “to keep gear in play” (Worn Wear, 2013). A service set up to cut down on consumption, and extend the life of a garment through recommerce.

What is Recommerce?

Recommerce is generally defined as ‘powering the re-use of goods.’ (Pagano, 2021). From reselling and renting, this applies to a product from any industry. It can be sold through merchants, brands or consumers, and can be a peer to peer, managed marketplace or a technology service business model.

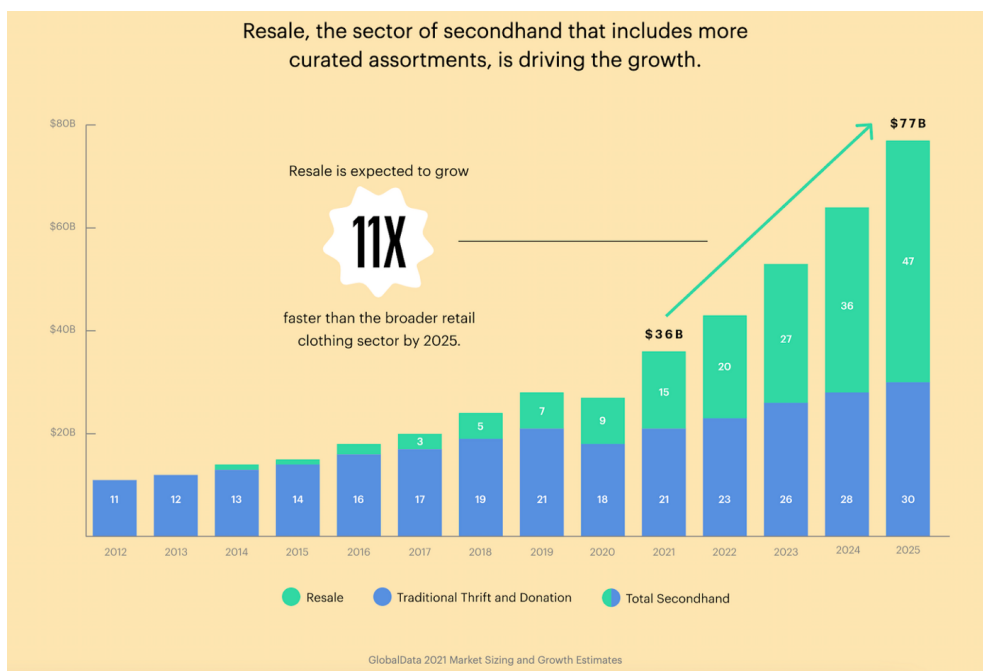


Figure 1. Pagano. (2021)

Brands with their own resale shops increased 275%, from 8 in 2020 to 30 in 2021, and 62% of Gen Z and Millennials say they look for an item secondhand before purchasing new (Reinhart, 2022). Second hand marketplace has been around for decades, but resale is planned to grow 11 times faster than the retail sector by 2025 as seen in figure 1.

What is Circularity?

As defined by the Ellen McArthur Foundation, 'The circular economy is a systems solution framework that tackles global challenges like climate change, biodiversity loss, waste, and pollution.' (Ellen McArthur Foundation, n.d).

Most industry infrastructures are linear, where focus lies on getting a product to a customer as quick and cheap as possible. This type of business is 'designed on a linear, one-way *cradle-to-grave* model', (McDonough et al, 2002, p26 - 27) where we take materials from the Earth to make products, and eventually throw them away as waste (Ellen McArthur Foundation, n.d).

Circular economy is driven by design, with a focus on eliminating waste and pollution, regenerating nature, and most important for this focused innovation, circulate products and materials (Ellen McArthur Foundation, 2017). The Ellen MacArthur Foundation estimates that "USD 500 billion value is lost every year due to clothing being barely worn and rarely recycled". (Circular X, 2020).

Products that are made from high quality fabrics and construction are made to last, globally, around 8% of clothes are reused, and about 10% are recycled (Jain et al, 2021). Patagonia is turning to recommerce and circularity in a way where they are encouraging consumers not to buy new, as there is a perfectly good one out there and they can pull it back if consumers are not using it and get it to the next person who will. (Makower, J. 2018).

Worn Wear

Worn Wear is an online service which Patagonia has taken inspiration from 'nature's regenerative biological cycle to reshape the apparel industry' (James, M. 2021). An approach that creates as little harm as possible through a partnership between Patagonia and its customers.

A recommerce platform that sells second hand Patagonia products. This programme allows them to take responsibility for their products and their whole lifecycle. Customers can send in their old, unwanted product which they can trade for credit. The service was set up 'because the best thing we can do for the planet is cut down on consumption and get more use out of stuff we already own (Patagonia, 2022). As Makower (2018) mentions "quality is the new sustainability".

b) The barriers and risks faced by the company in developing this innovation.

Patagonia is known for taking risks. In 2011 they released an ad which read 'Don't buy this jacket'. An ad to raise awareness on the issue of over consumption and educating the public on how to decrease the impact of consumerism for the environment. This led to a 30% growth in sales. Some argue that this was used as a shock, marketing tool to achieve sales, but it's clear from all that Patagonia does and stands for, that this was a strong message they wanted to get across.

The biggest risk for Patagonia with this innovation comes from the impact of growth for the business. How will they grow and sell their new products if there's a focus on the repair and resell element? Mihela Hladin, the Environmental and Social Initiatives Manager at Patagonia comments that "people will always buy new things, even if the brands change sometimes. It's about consumer behaviour in general, one of the most important factors is the issue of environmental destruction and ecological bankruptcy." (Becker, 2016).

Although consumers are becoming more aware of sustainability and the impact which the textiles industry has on the environment, there is still demand for "unparalleled convenience and affordability" of the "disposable lifestyle" (Ryan, 2020). The global apparel market is worth US\$1.5 trillion (Jain, V, O'Brien W & Gloria, T. 2021). Adegeest (2021) reports that 'fast fashion is expected to grow to reach US\$163.4 billion over the next five years with an increase constant of 19 percent to then reach US\$ 211.9 billion (188.8 billion euros) in 2030, an annual growth rate of 5.3 percent over five years.'. The used clothes market is worth US\$32 billion (Jain et al, 2021).

The fast fashion sector is a clear barrier for this innovation with many factors that influence the consumption behaviour, such as economic, physiological, and behavioural drivers, social, cultural, ethical, institutional, infrastructural, and political drivers (Jain et al, 2021).

c) The key determinants in the process of committing to develop the innovation.

Barkho (2020), refers to the Environmental Protection Agency, who stated that roughly 12.8 million tons of clothing end up in landfills in the U.S. annually. Reselling and repairing has the potential to 'help reduce the fashion industry's emissions by 13 million tonnes of CO2 by 2030.' (Shaw, 2021), but at current, brands either do not take back used clothes or provide little or no incentives for returning them to the value stream (Jain et al,2021).

If a piece of clothing is kept in use for an extra nine months, it can reduce that product's carbon, water and waste footprint by 20-30% (Worn Wear, 2013). Introducing a circular economy to any business when already established will be a challenge. Brands need to ensure they can maintain and handle the logistic element of recommerce as well as preserve the value of their business. Shaw (2021), states that the global second hand and resale clothing market is predicted to hit \$65 billion by 2024, compared to just \$11 billion in 2012 as seen below in Figure 2.

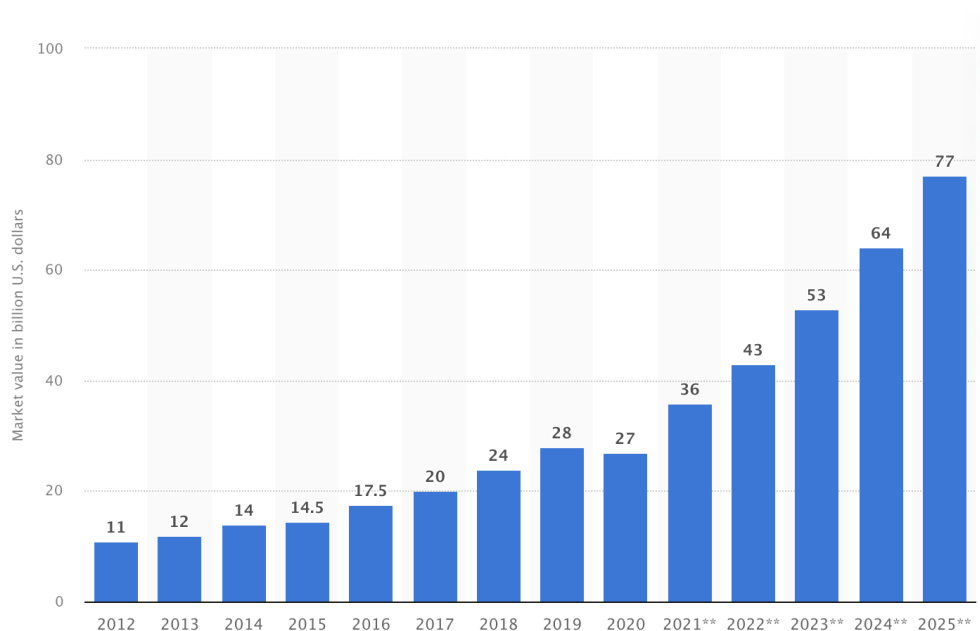


Figure 2. Shaw, R. 2021.

The Patagonia Worn Wear programme was already ingrained in their mission statement, of being in business to save the planet, but also building a circular economy structure to lower their impact. The key driver and determinant for this process was the digital platform Trove.

Andy Ruben, Trove Founder and CEO, mentioned that there are many factors which should entice brands to adopt recommerce into their business structure, such as brand narrative, an opportunity to protect the brand and develop an 'emotional depth in what the brand stands for' (Ryan, 2020). Building loyalty through driving incremental traffic back into the brand and reaching new customers through offering products at an accessible price and expanding the value. (James, 2021). A business model should 'provide the conceptual rather than the financial logic of a business' (Satell, 2017), and create, deliver and capture value. Worn Wear has achieved this by delivering a new service, and capturing value through recommerce.

Trove and Worn Wear are creating an appetite for the younger customers' mindset on the fashion industry and the way they like to shop, "37 percent of Gen Z's made a resale purchase in 2020" (Ryan, 2020) but through a way where Patagonia can maintain the brands integrity.

Worn Wear is a great example of the Gen Z rising trend of buying second hand. Rare and vintage Patagonia products have been in high demand with the younger generation, especially discontinued pieces from the 80s and 90s. According to Barkho (2020), a Patagonia deep pile jacket, circa 1982, sold for nearly \$1000 on eBay in 2020. Alex Kremer, director of Patagonia's Worn Wear program mentions that he is "most excited about seeing big growth around people buying used pieces to gift" (Barkho, 2020), another avenue of growth for resell.

d) The processes and technologies which the company used to carry this development forward.

For the WornWear business model innovation, Patagonia used the B Corporation certified company Trove. A business who are “on a mission to innovate beyond the take, make, and dispose model that is inherent to our modern retail model” (Trove, 2022).



Figure 3. Trove (2022)

Trove is different from a second hand marketplace as it was set up as a whitelabel business to work with brands (Debtor, 2021). Products can be returned to Patagonia stores, then are sent to Trove to do all the processing. Looking at the Trove ‘Circular Shopping’ above (figure 3), we see there are 16 different processes for each garment. From identifying to cleaning and repairing, photographing and valuating, before listing online or sent to a brands store. Trove will organise orders, package and send them out.

There are modern order management systems (OMS) in place that if brands decide to go alone and do in house. This system can help with the logistics of recommerce and allow a smooth transition.

Having the processes managed from a second source allows Patagonia to focus on their new collections, and more importantly, the communication and marketing of Worn Wear to educate consumers. Although the innovation is from Trove, the success would not be as impactful

without Patagonia having already a strong presence within sustainability and a large following towards their story.

e) The extent to which the development relied on resources external to the company and the ways in which the deployment of these resources was managed.

“The challenge facing any organisation is to try and find ways of managing this process to provide a good solution to the problem of renewal” (Tidd & Bessant, 2009, p54). Patagonia relied on the external business Trove, to lead them with their Worn Wear programme. The resale platform has additional steps to the buying and selling process. A platform which was already set up to “extend the life of millions of products.” (Trove, 2022). Trove deals with the complex logistics, and transforms into a joyful customer experience.

When the products get sent back to be repaired and washed, a CO₂-based technology is used, which presents fewer impacts to natural resources and 98% of the liquefied CO₂ used in the process is reclaimed (Nishimura, 2019). Each step has a focus on being low impact.

Ruben, Trove founder, mentions that a brand is making an “average of 30 percent net on the overall program.” (Horovitz, 2021). With Trove covering everything from the technology, operations, and analytics, they “do the hard work behind circular shopping” (Trove, 2022), whereas Worn Wear looks like a Patagonia service, customers are not made aware of the Trove service and how much they are involved (Makower, 2018).

Worn Wear, the hub of keeping gear in play, comes from the voice of Patagonia, but is managed by Trove. Patagonia is taking responsibility for their products, and stopping usable items from entering landfills, helping with the circularity of the high quality products and increasing the lifespan.

f) How management overview of the development was maintained.

Ryan (2020), mentions that Worn Wear in 2019 saw a “40 percent growth in revenue and profitability”, have kept more than 130,000 used items in play, and customers were “on average, 10 years younger than typical Patagonia customers”. This innovation is not only attracting a new customer for the brand, but is also helping them reduce their impact.

According to Ottenweller (2022), Worn Wear is currently 5% of their sales, with no impact on their new products, and Horovitz (2021), mentions that it will be “a double-digit share of its business in five to seven years”. These results fall within Patagonia’s mission statement to “save our home planet” as well as a strong solution implemented to help with the environmental crisis - ‘If it’s broke, fix it’ (Worn Wear, 2013).

From WRAP’s statistics of keeping products in active use, we are made aware that as consumers, there is accountability to ensure that every product bought is used responsibly. Humans have an impact on the environment, and buying through recommerce is “avoiding the CO² emissions, waste production and water consumption associated with textile production cycles” of new products (Pavarini, 2022).

Patagonia have changed the way consumers consume, they have educated on consumption, addressed the environmental issues and are now offering a recommerce platform of their products. This innovation has changed the second hand market place into a fresh way of adapting resale. A brand taking responsibility, and having the courage to sell their second hand products tells you their confidence in the quality of their products has been designed to last. Source of the change comes from the process and service that Trove has set up to make this all achievable. (Goffin et al, 2017)

Since its launch, several other brands have followed suit. Finisterre have teamed up with Reskinned who focus on resale, reuse and recycle to avoid any products ending up in landfill (Reskinned, 2022). There’s worry that Finisterre may not have full control over the communication and creatives of this marketplace. Another brand who is encouraging reselling is, Ganni, who set up ‘Ganni Repeat’ in 2019. With the mission ‘to reduce waste and help close the loop in the fashion industry (Ganni, 2019)’. A platform originally set up to rent clothing, they are now offering a selling and buying platform similar to how eBay or depop work. A process which is not as streamline as WornWear in the sense that customers have to do all the processing, from photographing, washing, sending etc, whereas Patagonia Worn Wear does all of that for you.

g) The extent to which you feel this innovation process represents best practice.

From reviewing the Worn Wear innovation, the incremental process best represents a breakthrough innovation. “*New products or services with unique features that provide real benefit to customers*” (Goffin & Mitchell 2017). Although the product is not new, the innovative process of reselling old, unwanted products becomes the innovation.

A process innovation, ‘changes in the ways in which they are created and delivered’ (Tidd & Bessant, 2009). The product becomes new in the way in which they are resold and proceed to their next chapter of life. Worn Wears breakthrough innovation addresses unmet customer needs from the community who aspire to own the brand's product but can't afford the price point. Additional to this, it's new to current customers by offering a new category of products.

As mentioned by Goffin & Mitchell (2017) “it takes time for customers to understand the benefits of breakthrough products and so it takes time to build sales.”. Although a new category, and resell being around for decades, breakthrough innovation does have initial risks to take. Previously to Worn Wear, people could buy second hand Patagonia products in ‘thrift stores’ or on resale marketplaces such as eBay. Patagonia has the confidence in their product, to know that they are built to last and the substantial durability to be resold is strong design development.



Figure 4. Tidd, J & Bessant, J (2009, p55.)

Patagonia identified a threat to the environment, based on the high disposal of clothing to landfill, but a great opportunity for change. Response to this leads to Worn Wear. Implementing the innovation 'is not a single event but needs attention to acquiring the knowledge resources to enable the innovation' (Tidd & Bessant, 2009) and to execute. Choosing Trove to manage this business model was a sensible and structured move from Patagonia, allowing the experts to execute to a high standard but maintaining the brand's voice.

This innovation combines with Patagonia's values and a breakthrough that has allowed the business to expand and achieve growth through benefiting customers and offering a completely unique service (Goffin & Mitchell, 2017).

h) Evaluation of the success of Worn Wear's innovation.

From reviewing the Worn Wear innovation, we can see that there are benefits to including this new business model into the linear structure that there is today. Both industry and consumer practices are the root causes of these problems (Jain et al, 2021), and to reduce their impact and improve environmental issues, this innovation will help.

Patagonia is known to take risks for a social and environmental change for good. Ryan (2020) indicates that 81% of consumers are changing their buying habits to benefit the environment. The platform embodies the circular economy whilst 'moving away from a throw-away-and-replace society, to a return-and-renew model in order to build long term prosperity.' (James, 2021).

From the success that Worn Wear has achieved, it is hopeful that the business model will grow for Patagonia, and inspire other brands to offer the same service. A business model which can help a company reduce waste and increase value are two strong factors to adapt.

The Patagonia voice is clear through the Worn Wear platform, and their creative storytelling and marketing educates customers on the simple reasons behind why to join the recommerce world. There's a substantial opportunity here for brands to use their platform, in their way, to introduce recommerce to have full ownership of the products they are putting out there and take responsibility for their impact.

An innovation can come from a product or service that already exists. Circularity is coming into light of business structures, and there are plenty of innovative models to follow and modify the industry.

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