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Business Models for Sustainability: Sustainability at the core of business strategy and its implementation
Abstract

This thesis tests the novel concept of business models for sustainability (BMfS) for its practicability. The ever more present longing towards sustainable development is calling for all relevant actors, governments, people and businesses, to do their part. For businesses, a novel approach has recently been discussed in management literature: business models for sustainability (BMfS). As bridges between theory and practice are still few in number, Patagonia, a company that is widely recognized as highly sustainability-oriented, is analyzed to test whether the BMfS-concept applies and to identify how BMfS are implemented. The research finds that Patagonia is a valid example of a company that exhibits the fundamental qualities of BMfS and features multiple BMfS archetypes.

Keywords: Sustainable Business Models; Business Models for Sustainability; Business Models; Triple Bottom Line; Stakeholder Theory, CSR; Patagonia
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1. Introduction

1.1 Relevance of the Topic

According to the United Nations Development Program’s *The Peoples’ Climate Vote*, 64% of people in the 50 countries investigated believe that climate change is a global emergency (Flynn *et al.*, 2021, p. 15) and 59% out of this group think that everything necessary should be done urgently in response to this emergency (Flynn *et al.*, 2021, p. 17).

The global society is growing increasingly worried about the effects of human civilization on its natural environment and about the implications this may have for future generations. The United Nation’s 2030 *Agenda for Sustainable Development* and *The Paris Climate Agreement* of 2015 are only two examples of the many ways in which this increasing awareness has started to manifest itself politically throughout the last decade. National governments are setting emission reduction goals and pledge to bring their economies on a path to zero emissions, as illustrated in the German Federal Government’s plans to achieve climate neutrality by 2045 (German Federal Government, 2021). Economic prosperity ought to no longer come at the expense of ecosystems and of human reality today and tomorrow.

Nearly 25 years ago, the World Commission on Environment and Development defined sustainable development as

> “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (WCED, 1987, p. 41).

Today, the calls for sustainable development are louder than ever before.

Next to the civil society and political institutions, a third critical actor is increasingly widening its focus to the ecological and social issues of our time: the business community. To many, private business was for a long time rather known for ethical scandals and ecological catastrophes than for its meaningful contribution
to social and ecological causes. The global financial crisis in 2008, the Deepwater Horizon oil spill in 2010 and the collapse of the Dhaka garment factory 2013 in Bangladesh are only three examples of many events that damaged the reputation of industries and led to a perceived natural contradiction between profit-oriented business practices and sustainable and ethical behavior.

However, the tide is turning, and businesses and industries of all sorts are starting to talk about and act on themes related to corporate social responsibility (CSR). The European Commission defined CSR as

“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” (2001, p. 6)

In 2020, the CEO of the world’s biggest asset management firm Blackrock, Inc. wrote in his annual letter to CEOs that “climate risk is investment risk” (Fink, 2020) and Blackrock, Inc. along with other major asset and risk management firms has begun to make sustainability an essential component in portfolio construction and risk management. Based on a recent survey on sustainability reporting, KPMG Impact reported that out of 5200 large and mid-cap firms in 52 countries 80 % were reporting on sustainability (Threlfall et al., 2020, p. 10)(Threlfall et al., 2020, p.), with the rate steadily increasing since the early 2000s. These are just two examples of developments and trends that can be observed across markets and industries.

The reasons for these developments and trends are diverse. Firstly, there is a growing number of increasingly rigorous sustainability related legislation almost everywhere in the world, such as the German Supply Chain Act of 2021, which obliges large companies to regularly examine their direct supply chain for environmental risks and human rights violations (German Federal Government, 2021b). Secondly, consumers are increasingly concerned about manufacturing conditions and ecological footprints of the products they buy and the companies they are buying them from. However, pressures do not only stem from states and clients, but also from investors, suppliers and practically all relevant stakeholder groups. Thirdly, business leaders are starting to see real mid- and long-term
financial benefits in strategies that evolve around ESG (environmental, social and governance). In a survey on valuing ESG programs, the consulting firm McKinsey & Company found that 57% of surveyed executives and investment professionals agree that ESG programs create shareholder value (Delevigne et al., 2020, p. 2), naming as principal reasons the good corporate reputation (71%), the attraction and motivation of talent (49%) and the compliance with society’s expectations for good corporate behavior (43%) (Delevigne et al., 2020, p. 4).

Among companies’ well-established approaches to fulfill their social responsibility are philanthropy, non-financial reporting, product innovation and process optimization. And while these approaches are increasingly becoming part of the mainstream, they are potentially insufficient for societies and economies to achieve sustainable development (Abdelkafi and Täuscher, 2016, p. 75; Schaltegger et al., 2016, p. 1).

Instead, a much more holistic approach is increasingly being discussed in the management literature. It is the idea of designing business strategy, and more specifically business models in a way that they place ecological and social considerations in line with economic ones. This approach is essentially about changing the value creation logic of companies and thereby changing the way we look at business models, reimagining how they could facilitate a more sustainable impact. Researchers have mostly referred to this kind of business models as business models for sustainability (BMfS) or sustainable/ sustainability-oriented business models (SBM) and the research into such concepts has developed and diversified quickly throughout the last 15 years. The terms are interchangeable and from this point onward the former (BMfS) will be used in order to maintain coherence. The scientific debate about BMfS is still relatively young and so far no widely accepted theoretical concept has emerged.
1. Introduction

1.2 Research Objective & Structure

This thesis intends to identify the fundamental qualities of business models for sustainability and to test the concept for its practicability by examining a company which is widely regarded as highly sustainability-oriented for its compliance with the main ideas of BMfS.

A quickly growing research field, BMfS literature provides various sets of requirements and theoretical concepts of sustainability-oriented business models and their qualities. While these frameworks do reference one another, no widely accepted concept can be identified as of today. As of July 2021, there are only few case-based pieces of research on the overarching concept of BMfS (e.g. Stubbs and Cocklin, 2008). Many approaches remain theoretical. However, testing of the applicability of the concept is the base requirement for identifying its ties to real-world business activities and hence its relevance for practitioners. Further, through the in-depth analysis of the company’s business model, the study demonstrates how a BMfS is realized in practice.

As a result, this paper's guiding research question is:

*Can business models for sustainability be observed in highly sustainability-oriented companies and, if so, how are they implemented?*

This introduction is followed by an in-depth literature review, which is structured thematically and serves to lay a theoretical groundwork and identify tools for the case analysis. Subsequently, in chapter 3, the company of interest is presented, analyzed and the findings are discussed and interpreted to answer the research question. Concluding, Chapter 4 contains a summary of the research and a critical reflection.
1.3 Research Design

In order to answer the above stated research question and gain valuable insights about the subject of discussion, this piece of research consist of a comprehensive literature review and a subsequent qualitative case analysis of Patagonia, Inc.. Patagonia, Inc. is a highly sustainability-oriented company, whose selection as a case example is argued for in the beginning of chapter 3, the case analysis.

The systematic literature review is the foundation for the development of a theoretical framework, encompassing the prevailing ideas about BMfS found in the literature. The case analysis draws on the insights gained in the literature review, as two BMfS analysis tools are put to use, and the qualitative results are interpreted by the author to answer the research question. The case analysis is based on the examination of primary (e.g. websites, reports) and secondary (case studies, articles) sources about the company.

The precise procedure of the literature review and the tools employed for the case analysis are more precisely described in chapter 2.
2. Literature Review

This chapter contains the methodology, the results and the conclusion of a systematic literature review about BMfS.

The first section introduces two topics, which are fundamental in understanding business models for sustainability: the business model and corporate sustainability. Subsequently, the procedure of the literature review is described and reasoned for. The third section outlines the discussion and important concepts in field of BMfS and consolidates identified theory into a BMfS profile, made up of a definition, fundamental qualities and a typology. The chapter ends with the presentation of two BMfS analysis tools, that are used for the case analysis of Patagonia, Inc., in chapter three.

2.1 Fundamental Concepts

As the literature review aims to investigate the theoretical approach of pursuing sustainability via business models (i.e. BMfS), a review of two fundamental concepts is warranted. Thus, this section explains the business model concept in one of its most widely accepted representations and subsequently reviews insightful concepts of corporate sustainability.

2.1.1 The Business Model

From the start, it should be understood that there is no one universally used or accepted definition for the term business model (Nielsen et al., 2019, p. 2). An aspect that most researchers appear to agree on, however, is that business models are vehicles for a company to implement its strategy (Nielsen et al., 2019, p. 2) and thus describe how the company does business, i.e., how it creates and captures value (Osterwalder and Pigneur, 2010, p. 14; Teece, 2010, p. 173).

Fundamentally, value is defined by the different stakeholders of a company and created and ultimately delivered through various aspects of business activity (IFAC, 2020, p. 4). Traditionally, value was primarily defined from the perspective of a two-dimensional B2C (business to customer) relationship, where the initially
created value, e.g. the product, is delivered in exchange for a different, mostly financial kind of value (Freudenreich et al., 2020, p. 3). For example, in the first step a fashion company has to (1) identify, what kind of t-shirt its customers would want to buy. What is the perceived need to be addressed? The product, the business decides to offer, is its so-called value proposition. Once the need is defined, the company has to (2) create the value, e.g., by manufacturing the t-shirt. In the value exchange (3), the customer buys the shirt and receives it in exchange for money. In this process, the company tries to generate a value surplus, which is referred to as capturing value. The steps are visualized in Figure 1.

In his “Business Model Ontology”, a standard work in the field, Alexander Osterwalder defined business models as follows:

“A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.” (2004, p. 15)

In “Business Model Generation” (2010, p. 14) Osterwalder and Pigneur offered a more concise definition:

“A business model describes the rationale of how an organization creates, delivers and captures value.”
As the Swiss researcher Alexander Osterwalder is one of the most impactful in the business model research field and one of the tools he developed will be of importance in later parts of this thesis, the following paragraph is going to briefly summarize the business model concept he presented in his dissertation (Osterwalder, 2004, p. 42-95), refined in his publication on “Clarifying Business Models” (Osterwalder, Pigneur and Tucci, 2005) and last amended in “Business Model Generation” (Osterwalder and Pigneur, 2010).

In the organizational context, the concept sees the business model as the central part of the so-called “business triangle” (Osterwalder et al., 2005, p. 8), embedded between and linking business strategy, organization and systems whilst under constant influence of external pressures (Figure 2). The business model’s role is to illustrate the blueprint that facilitates the realization of strategy through business processes and systems.

Alongside the relatively abstract definitions and its position within the business triangle, nine concrete building blocks that make up a business model are described in the concept (Osterwalder, 2004, p. 43 ; Osterwalder, Pigneur and Tucci, 2005, p. 10.; Osterwalder and Pigneur, 2010, p. 16-17): customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure.

These nine building blocks constitute a renowned framework: the business model canvas (BMC), shown Figure 3. This tool intends to help mapping and thereby
understanding, describing, communicating and potentially innovating business models (Osterwalder and Pigneur, 2010, p. 15).

The BMC is certainly one of the most prevalent and acknowledged tools for business model design and communication, for Osterwalder and Pigneur’s publication became a global success (Nielsen et al., 2019, p. 12) used in many types of organizations (Osterwalder and Pigneur, 2010, p. 15) and frequently reference throughout business model literature, as will be shown later on.

2.2.2 The Triple Bottom Line & Stakeholder Theory

As discussed in the introduction, companies are increasingly expected to take on their social and environmental responsibilities. Meanwhile, researchers have developed theories and concept that depict businesses’ different areas of impact and responsibility. Among these are the Triple Bottom Line and the Stakeholder Theory, which are now explained in a little more detail.

The Triple Bottom Line

In 1994, with the publication of his book Enter the Triple Bottom Line, John Elkington coined the Triple Bottom Line (also: TBL or 3BL). In a recent article, he wrote:
2. Literature Review

“the triple bottom line is a sustainability framework that examines a company’s social, environmental, and economic impact.” (Elkington, 2018).

In essence, the TBL promotes a change in paradigm through which companies grow as concerned and become just as active about their environmental and social impacts as they are about their financial performance. Another well-established way of referring to the recipients of a company’s impact is that of the three Ps: people, planet and profit (Sitnikov, 2013, p. 2559).

In practice, the TBL idea encompasses prioritizing long-term financial solidity and stability over short-term profits. Secondly, it demands the consideration of the company’s impact on not only its shareholders, but also all other relevant stakeholder groups, such as employees or local communities. In relation to the natural environment, TBL-oriented companies recognize the limitation of resources and the impacts of their business processes (e.g. production, supply-chain). The idea is for companies to seek minimizing their negative impacts across all three bottom lines while trying to create positive ones.

Attempts to internalize the TBL concept include notions of sustainability (or ESG) reporting, such as the reporting standards provided by the Global Reporting Initiative (GRI), which are “global standards for organizations to report on economic, environmental and social impacts” (Global Reporting Initiative, 2020, p. 3). The idea of the triple bottom line has also pervaded management research and will become relevant throughout the Literature Review, later in this chapter.

Stakeholder Theory

Stakeholder theory takes on a different perspective of the firm. From this perspective, it is the network of numerous relationships between different actors that have a stake in the business, i.e. stakeholders, that constitutes a business (Freeman, 2010, p. 1). These are actors who, on the one hand, are crucial for the functioning of a business and who, on the other hand, are themselves influenced by the business (Freeman, 2010b, p. 46).
It can be seen as somewhat of an opposition against the traditional shareholder-centric paradigm in that it considers the integration and support of every relevant stakeholder group as a precondition for the company’s survival (Freeman, 2010, p. 1). In terms of sustainability, stakeholder theory can be seen as a change in the point of view. If at first a company tries to imagine the concerns of each and every stakeholder group, it may arise at alternative conclusions and identify a more diverse set of needs.

The stakeholder perspective reimagines the business concept and therefore also value creation processes. Value creation is seen as a mutual service, where the party receiving value, in a healthy relationship, is likely to pay it back in some form (Freeman et al., 2018, p. 6). The characteristics of value creation through the lens of stakeholder theory, however, will be explained in the BMfS literature review and hence a further investigation of the theory is not warranted at this point. Figure 4 was adapted from Freeman’s standard work “Strategic Management: A Stakeholder Approach” (2010b, p. 25) and is an exemplary illustration of a firm’s multiple stakeholder relationships.

![Diagram of firm from a stakeholder theory perspective](image)

*Figure 4: The firm from a stakeholder theory perspective (adapted from Freeman, 2010b)*

The two concepts that were explained in this section facilitate the understanding of the next sections. The following section contains a description of the methodology and procedure of the literature review. Subsequently, the concept of business models for sustainability is explored and a theoretical groundwork is established.
2.2 Methodology & Procedure

In light of the research question, the focus of the literature search was to find theory-building publications about business models for sustainability that facilitate the understanding of the BMfS concept. The aim was to identify concepts of relevance for the creation of a theoretical groundwork and adequate tools for the case analysis. While the results likely do not encompass all publications and concepts that may be of relevance, it is trying to outline the most important concepts so far developed in the BMfS field.

In order to create a theoretical groundwork and context that is not merely based on personal biases and subjectivity, sub-steps of a systematic literature review were employed to the extent, considered adequate for the scope and aim of this research. Stage II (“Conducting a Review”) of Tranfield et al. (2003, pp. 214-218) served as a conceptual foundation.

The search was conducted using the database Scopus, a portal that contains more than 23,000 peer-reviewed journals (Elsevier B.V., 2019), focuses on social sciences and, most importantly, offers a powerful and intuitive search engine, which allows for rigorous review of existing literature.

In a first step, the search parameters were determined. After the testing of alternatives, such as “SBM”, “BMfS” and “sustainability-oriented business models”, of which none lead to more or significantly diverging results, the search strings “business models for sustainability” and “sustainable business models” (singular/plural did not yield different results) were used. The selection of the search strings follows the logic of the afore mentioned search intention, aiming to identify closely related theoretical concepts. For both search strings, the filters were adjusted so that the results would contain publications that (1) include the terms in their titles or abstracts, (2) are written in English language an (3) are classified in the subject area “Business Management and Accounting”. The search for “Business Models for Sustainability” resulted in 38 results, whilst “Sustainable Business Models” led to 362. When searching for both search strings in one joint search, applying the same filters, the total number of results was reduced by ten (now: 390), which implies ten publications containing both
terms in title and abstract. The development of number of publications over time is illustrated in Figure 7 (next section).

Further sorting was conducted to sort out the results that did not comply with the above-mentioned focus of the search. This was done in three sorting cycles. The first filter that appeared most reasonable was the “subject area”. Here, publications from all subject areas outside of “Business Management and Accounting” were investigated on whether their foci lay on theory building about BMfS or not, which was assessed through the publications’ abstracts.

For a quality assessment, the remaining 312 publications were arranged via number of citations and subsequently the abstracts were examined for the researchers’ aims and findings. The predetermined selection criteria were the degree of emphasis on theory-building, provision of tools for analysis, proposed advancement of the research stream and number times the work had been cited, assuming that this accounts to some extent for the publications’ impact. This strict filtering process led to a remaining 21 publications on Scopus.

In order to minimize the deficits of just using one database (i.e. potentially missing out on key publications), additional databases like emerald insight, JSTOR and SSRN (Social Science Research Network) were consulted in the course of a narrative review. The same search strings were used and next to the qualitative criteria listed in the previous paragraph, the number of citations was again used as a third criteria. This step led to an additional six publications being identified. As a result, a selection of 27 publications (see Appendix I) will provide a sound basis for the discussion of the BMfS concept in the next section.

The filtering methods employed in the search certainly limit the results’ representativeness, as they inevitably introduce the author’s subjectivity and personal biases. Another obstacle was the dispersion of relevant BMfS literature (Bocken et al., 2014, p. 54; Lüdeke-Freund et al., 2018, p. 39).
2. Literature Review

2.3 Business Models for Sustainability

In order to answer the question of whether BMfS can be observed in highly sustainability-oriented companies, the precondition is a profound understanding of what a business model for sustainability is. What does it look like? What are its innate characteristics? How are such business models analyzed, illustrated and communicated? The conventional understanding of what constitutes a business model was elaborated above. Based on the results of the literature search explained above, the following section seeks to thoroughly explore BMfS, examine relevant concepts and derive a definition, basic qualities and a typology of the concept.

In that, the objective is to answer the following four questions:

1. What is a suitable definition for business models for sustainability? (Q1)
2. What are the qualities, a BMfS has to possess? (Q2)
3. What are typical BMfS types? (Q3)
4. How are BMfS analyzed, illustrated and communicated? (Q4)

When outlining the scientific discussion about BMfS, it should be noted that this further includes a strand of publications that are explicitly concerned with business model innovation and transformation (e.g. Schaltegger et al., 2012; Roome and Louche, 2016). While there are certainly overlaps, as for instance in the tools that are presented later on, the question of how to make a business model more sustainable through innovation and transformation is not the main focus of this literature analysis.

2.3.1 Defining Business Models for Sustainability

As for any subject of interested, it is reasonable to start by looking at definitions for BMfS, offered in the corresponding literature. Interestingly, even though many of the publications observed are of theoretical, descriptive nature, only three offered an explicit definition of BMfS or more sustainable business models, respectively (i.e. Lüdeke-Freund, 2009, p. 56; S. Schaltegger et al., 2016, p. 6; Lozano, 2018, p. 1164).
Only the second publication to extensively cover sustainability-oriented business models, Lüdeke-Freund essentially builds on the four pillars that are also part of Osterwalder’s business model ontology (2004, p. 43): product, customer interface, infrastructure, finances. However, he extended the value concept to include ecological and social aspects. In addition, the definition encompasses more customer integration into the value creation process and adds a fifth “non-market” pillar for the exploration of opportunities beyond markets.

In 2016, Schaltegger et al. provided a more concise definition (2016, p. 6). These authors focused on the value proposition and, similar to Lüdeke-Freund, considered ecology, society and economy beyond organizational spheres. What is new is that it further demands the addressing of all stakeholders, not just the customers. According to Lozano, in more sustainable business models (MSBM) efficiency plays a central role, as it allows the company to add value and to better advance sustainability (2018, p. 1164). Moreover, the definition names resources, the supply chain and the stakeholders as shaping forces.

In summary, overlaps between these definitions include

1. the extension of the value concept to include environment and society,
2. widening the company’s perception beyond its immediate business-ecosystem and
3. extended stakeholder integration.

As for any definition, however, it is advisable to better understand the fundamental qualities of the object of interest in order to capture its very essence in the definition. In the pursuit of answering Q1, we therefore turn to Q2 and, based on the assessed literature, explore the fundamental qualities of BMfS.

### 2.3.2 Fundamental Qualities of BMfS

Historically speaking, Stubbs and Cocklin’s publication *Conceptualizing a ‘Sustainability Business Model’* (2008) was the first article in the field of business model research to explicitly define a set of characteristics, a sustainability-oriented business model ought to possess (Schaltegger et al., 2016, p. 3). In an attempt to challenge the traditional, mainly economical line of thinking, the
authors intended to explore how companies could contribute to sustainable development (Stubbs and Cocklin, 2008, p. 103). Based on the study of two cases, an ‘ideal type’ was developed, possessing the following characteristics (Stubbs and Cocklin, 2008, p. 121-122):

1. The organization’s purpose is framed in sustainability-terms.
2. Performance is measured and reported on in a TBL-approach, including economic, environmental and social criteria.
3. Consideration & engagement of all stakeholders (not just the shareholders) is given.
4. Nature is seen as a stakeholder in its own right.
5. Sustainability is championed by top-level leadership.
6. The challenge of trying to achieve sustainability is understood from a systems perspective, recognizing that not just the firm, but also its ecosystem is in need of change.

Essentially the first publication outlining the basic qualities of sustainability-oriented business models, this piece of research pioneered the scientific discussion about BMfS with many of the following publications referring to it (e.g. Schaltegger et al., 2012; Boons and Lüdeke-Freund, 2013; Bocken et al., 2014; Joyce and Paquin, 2016). The increase in research from that point in time onwards can be observed in Figure 5.

Figure 5: Publications containing “Business Models for Sustainability” or “Sustainable Business Models” in title or abstract over time (via Scopus)
Throughout the years, there were further attempts to characterize BMfS. Whilst these attempts took on different forms and perspectives, some themes were more recurring than others and will be examined in the following paragraphs.

From an overall strategy perspective, Evans et al. (2017, p. 602), Breuer et al. (2018, p. 270), and Freudenreich et al. (2020, pp 11-12) share the assessment of Stubbs and Cocklin, proposing that the normative statements of BMfS should reflect the company’s sustainability-orientation. As the vision is a description of the future, a company is in the pursuit of and the mission practically defines the objectives leading the way to that future (Rigby, 2017, p. 44), it appears reasonable to assume that a company that perceives its business model(s) to be sustainability-oriented, would define those statements accordingly. Breuer et al. state that “action-oriented principles of sustainability” (2018, pp. 270-271) could be derived from the overarching statements and further guide the development of practical concepts for sustainability implementation.

In an interconnected, globalized society, most businesses are embedded in systems that transcend formerly known boundaries. This means that a company is influenced by and influences multiple other parts of those systems, as for instance local communities, ecological systems, partners and competitors. This understanding of the company as part of wide-ranging systems is the second strongly represented theme (Stubbs and Cocklin, 2008; Boons and Lüdeke-Freund, 2013; Upward and Jones, 2016; Breuer et al., 2018), characterizing business models for sustainability. A BMfS which, as stated above, pursues sustainability has to understand its embeddedness within wide-ranging systems as this is a prerequisite for producing truly sustainable results (Stubbs and Cocklin, 2008, p. 122; Upward and Jones, 2016, pp. 105-106; Evans et al., 2017, pp. 602-603). In practice, this implies that BMfS do not externalize their social and ecological costs throughout their supply chain or in customer relations (Boons and Lüdeke-Freund, 2013, p. 11). In essence, sustainability-oriented companies internalize systemic thinking, but they also act systemically by collaborating with key stakeholders within their systems (Stubbs and Cocklin, 2008, p. 123).
Traditionally, the business model was primarily perceived in the context of the company’s relationship with its paying customers (see Osterwalder, 2004, p. 43). If a company is to be understood as part of a system, however, merely considering the customer hardly appears sufficient. Rather, BMfS enable the collaboration with all stakeholders (e.g. society, shareholders, ecosystems) to co-create value (Upward and Jones, 2016, p. 105) and solve sustainability-related problems (Freudenreich et al., 2020, p. 12-13). They allow for an assessment of all stakeholders’ needs and facilitate collaboration in order to satisfy the needs of all parties involved (Breuer et al., 2018, p. 273). Understanding the ecological environment as a stakeholder in its own right is another formal, yet valuable quality in BMfS, as ecological objectives need to be prioritized decidedly (Stubbs and Cocklin, 2008, p. 122; Evans et al., 2017, p. 601). In essence, business models for sustainability are characterized by a holistic integration of all stakeholders (including the environment), so that all parties can collaborate in pursuing a joint purpose whilst mutually creating value.

The way a business model defines and creates value is the fourth and last characteristic, extensively discussed throughout the literature (e.g. Bocken et al., 2013; Breuer et al., 2018; Lüdeke-Freund et al., 2020). As depicted earlier, the central concept of value was traditionally defined in economic terms: creating shareholder value or financial gains from selling products and services to customers. The debate about sustainability-oriented business models, however, offers new perspectives on value and its creation. A value that is sustainable, according to many researchers, ought to be perceived not only in economic, but also in social and environmental terms (Boons and Lüdeke-Freund, 2013, p. 11; Upward and Jones, 2016, p. 103; Evans et al., 2017, p. 601). In BMfS, creation, recipient and value capture are inevitably linked to and defined with the company’s stakeholders (Freudenreich et al., 2020, pp. 11-12; Lüdeke-Freund et al., 2020, p. 81). As the scope of stakeholder consideration widens beyond markets, so does, necessarily, the understanding of the value concept. Resulting from this debate about sustainable value was also the idea of a reassessment of profit and of what defines success. In this context, Breuer et al., in line with Stubbs and Cocklin, argued for a shift from the economic single bottom line to the triple bottom line (2018, p. 271), measured in monetary and non-monetary terms.
Upward and Jones took this new approach to performance assessment even further, suggesting the introduction of *tri-profit* as a way of joining the TBL-factors into one measurable metric (Upward and Jones, 2016, p. 6). This latter approach is only one of a number of newly imagined methods for assessing value and profit.

As it is the common denominator of most of the discussed value concepts, it can be concluded that in a BMfS, *sustainable value is understood as the triad of social, environmental and economic value*, as illustrated in *Figure 6*.

![Figure 6: Sustainable value (adapted from Evans et al., 2017, p. 600)](image)

*What are the qualities, a BMfS has to possess? (Q2)*

In order to answer this question, a diverse body of literature conceptualizing BMfS and their core characteristics was examined (*see Table 2*). While the qualities identified and discussed above were not the only ones offered, they were most frequently represented in numerous publications and hence warrant an inclusion in the answer to Q2.
A business model for sustainability possesses the following fundamental qualities:

1. The normative statements (purpose, mission, values) reflect the company’s sustainability-orientation.
2. The company understands itself as part of a number of far-reaching systems.
3. A holistic consideration and integration of all stakeholders (including the environment) is provided.
4. Sustainable value, made up of the triad of social, ecological and economic value, is the product of the company’s actions and the concept through which it defines its success.

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<td>Sustainability-oriented strategic statements</td>
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<td>Stakeholder integration</td>
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<td>Systems perspective</td>
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<td>Reassessing value</td>
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<td>TBL performance assessment</td>
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*Table 1: Fundamental qualities of BMfS in the literature*

By defining the fundamental qualities of a business model for sustainability, the basis for a comprehensive definition of the term is provided.
As a result of the comparative literature review and answering Q1, the author suggests the following definition for BMfS:

A business model for sustainability explicitly considers sustainability part of its purpose and itself as one member of a number of far-reaching systems whose other parts, the company’s stakeholders, need to be holistically integrated for the business to create social, ecological and economic value in the pursuit of ultimately fulfilling its purpose.

Following the characterization and definition, the next section briefly describes the typical kinds of BMfS and thereby seeks to answer Q3.

2.3.3 BMfS Typology

Business models for sustainability may present themselves in a number of ways. This section highlights three publications that attempted to give an overview over “typical” kinds of BMfS, which are frequently used approaches seen in practice.

One of the most influential attempts of BMfS classifications was certainly that of Bocken et al. (2014), which is frequently cited (1175 citations on Scopus; highest number among identified literature) and is one of the prevalent categorizations to this date. Through a process of reviewing business model literature and practical examples of BMfS and sustainability-oriented business model innovations, these authors conceived a categorization of real-world archetypes, i.e. generic and recurring types, of BMfS (Bocken et al., 2014, p. 48). In the classification, the eight archetypes were organized in a technological, a social and an organizational group, almost identical to the revised version illustrated in Table 3. Furthermore, each archetype was introduced along with a definition, arguments for inclusion, multiple examples of business practices and described the corresponding value proposition, -creation, -delivery and -capture (Bocken et al., 2014, pp. 48-54).

In their 2016 report, Lüdeke-Freund et al. refined this typology and ultimately allocated three archetypes to each of the three overarching groups (now: environmental, social and economic) (p. 48). In addition to definitions, potential positive and negative consequences, and exemplary practices, the authors
identified a case example for each archetype (Lüdeke-Freund et al., 2016, pp. 49-56). To date, the typology of Lüdeke-Freund offers the most comprehensive classification of BMfS archetypes. The above listed BMfS archetypes are not mutually exclusive or meant bring an end to the attempts of classification (Bocken et al., 2014, p. 54). In answering the research question and throughout the case analysis it will therefore be investigated whether the typology covers the business models under analysis or whether the study suggests new types.

Lastly, another interesting classification was offered by Lüdeke-Freund et al. (2018), who developed an extensive BMfS pattern taxonomy (pp. 38-39), covering 45 individual patterns, and associated types of value creation. However, as this taxonomy will not be employed in the case analysis, it is not described any further.

Concluding the past three sections, Table 2 offers an overview over the developed BMfS profile, covering definition, characteristics and to this date articulated archetypes. This profile serves as the theoretical foundation to assess whether the business model of Patagonia, Inc. can be considered a business model for sustainability.

### The profile of business models for sustainability

<table>
<thead>
<tr>
<th>Definition</th>
<th>A business model for sustainability explicitly considers sustainability part of its purpose and itself as one member of a number of far-reaching systems whose other parts, the company’s stakeholders, need to be holistically integrated for the business to create social, ecological and economic value in the pursuit of ultimately fulfilling its purpose.</th>
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</table>
| Fundamental qualities | 1. The normative statements (purpose, mission, values) reflect the company’s sustainability-orientation.  
2. The company perceives itself as part of a number of far-reaching systems.  
3. A holistic consideration and integration of all stakeholders (including the environment) is provided.  
4. Sustainable value, made up of the triad of social, ecological and economic value, is the product of the company’s actions and the concept through which it defines its success. |
2. Literature Review

| Archetypes (Lüdeke-Freund et al., 2016) | - Maximize material and energy efficiency  
- Closing resource loops  
- Substitute with renewables and natural processes  
- Deliver functionality rather than ownership  
- Adopt a stewardship role  
- Encourage sufficiency  
- Repurpose for society/environment  
- Inclusive value creation  
- Develop scale up solutions |

Table 2: The BMfS profile

2.3.4 Tools for BMfS Analysis

Overview

In the previous sections, BMfS were defined, their fundamental qualities were outlined, and different recurring types of such business models were listed. In order to comprehensively answer the research question and to assess whether a highly sustainability-oriented company like Patagonia, Inc. complies with the BMfS concept, the tools employed for analysis are described in this section. First, an overview of a number of different BMfS analysis tools given. Subsequently, the tools selected for the case analysis are presented and argued for.

The Business Model Canvas (BMC) of Osterwalder and Pigneur (2010, p. 44) was outlined at an earlier stage. The general acceptance and frequent adoption of this tool point to its feasibility for analyzing and illustrating business models (Joyce and Paquin, 2016, p. 1476-1477), especially conventional, primarily profit-oriented ones (Upward and Jones, 2016, p. 114). In the context of the scientific discussion about BMfS, the conventional BMC has been used as a basis for developing new tools in numerous cases (e.g. Joyce and Paquin, 2016; Upward and Jones, 2016; Cosenz et al., 2020). In differing approaches, these tools try to include some of the fundamental qualities inherent to business models for sustainability into the process of mapping business models. For instance, Jones and Upward developed a BMC for strongly sustainable firms (SSBMC) (2014, p. 5). The SSBMC depicts the business model as part of four spheres: the
organization, the financial economy, the society and the environment. This multidimensional view encompasses some of the major systems that business models are part of and would therefore allow for a mapping in accordance with the fundamental quality of conceiving the BMfS as part of wide-ranging systems.

Another group of tools focuses on the concept of value (Bocken et al., 2013; Lüdeke-Freund et al., 2016, pp. 31-32; Freudenreich et al., 2020). Based on the analysis of sustainability-oriented companies, Bocken et al. developed a value mapping tool for sustainable business modelling, which was intended to assist in mapping out the value network in order to make it more sustainable (2013, pp. 10-11). The tool equally considered multiple stakeholder segments, such as the environment and academia, and presented the value network as a hole, with the company representing merely one of many elements. In terms of value assessment, the tool allowed for the mapping of four distinct types of value: value captured, value destroyed, value missed and value opportunities (Bocken et al., 2013, p. 10).

Unique in its purpose, the sustainable business model assessment framework (SUST-BMA) of Lüdeke-Freund et al. (2017, p. 23) was developed as a tool for evaluating and managing the sustainability performance on the business model level. While an interesting concept, the tool cannot help in answering the research question, as it does not sufficiently cover the fundamental qualities of BMfS that were presented above.

Table 3 offers an overview over the various tools identified that were developed explicitly in the context of sustainability-oriented business models.

<table>
<thead>
<tr>
<th>Publication</th>
<th>Tool</th>
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<tbody>
<tr>
<td><em>Bocken et al., 2013, p. 10</em></td>
<td>Value-mapping tool for sustainable business modelling</td>
</tr>
<tr>
<td><em>Jones and Upward, 2014, p.5</em></td>
<td>Strongly sustainable business model canvas (SSBMC)</td>
</tr>
<tr>
<td><em>Joyce and Paquin, 2016, p.1483</em></td>
<td>Triple layer business model canvas (TLBMC)</td>
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Now, after the exemplary description of two categories of BMfS analysis tools, those selected for the case analysis will be presented: (1.) the stakeholder value creation framework for business model analysis (SVCF) of Freudenreich et al. (2020) and (2.) the triple layer business model canvas (TLBMC) of Joyce and Paquin (2016).

**Tools for the Case Analysis**

In an attempt to offer a new perspective on value creation, Freudenreich et al. (2020) consolidated stakeholder theory and findings from conventional and sustainability-oriented business model literature to create a practical tool for business model-, and especially BMfS analysis.

The stakeholder value creation framework (Figure 7) illustrates a business’ diverse stakeholder segments and, above all, the relationship it has with these stakeholders in terms of value creation and exchange. The framework is centered around a joint purpose, which is the first prerequisite for such a stakeholder value network to form, because it is the shared motive that all stakeholders can rally around. The authors state, that in a BMfS such a purpose ought to aim for sustainable development and should involve the stakeholders and their role in achieving the purpose (Freudenreich et al., 2020, p. 12).

This framework essentially seeks to depict the entirety of stakeholder relationships a company holds and facilitates the illustration of with whom (co-
creation) and for whom value is created (e.g. employees and HR management activities), which is illustrated by the five segments in Figure 7.

The arrows carry the information of how the value is created (e.g. working) and point to examples for the resulting value contribution (e.g. knowledge).

Following stakeholder theory, the authors intend to highlight the interdependencies in stakeholder relationships, which mainly arise from their mutuality, as there is no one exclusive stakeholder capturing or creating value (Freudenreich et al., 2020, p. 8). From these numerous relationships and their mutual and co-operative value exchanges arise diverse types of value, which exceed economic and include not only social and ecological, but also cultural and symbolic value categories (Freudenreich et al., 2020, p. 15).

Stakeholder integration and an extended understanding of value were the most prevalently discussed characteristics for BMfS in the assessed literature (see Table 1).
The fact that the SVCF extensively describes stakeholder relationships along with its differentiated value perspective are strong arguments for the use of this framework to analyze whether BMfs, as defined previously, can be observed in highly sustainability-oriented companies. As a matter of fact, the authors suggest this type of use for the framework, stating that it “can be used to analyze how closely a business model corresponds to a BMfs” (Freudenreich et al., 2020, p. 12). Further, the framework offers a high degree of usability for case analysis by providing eight guiding questions for the business model assessment, as for example: “Where are potential conflicts or synergies among value creation activities in the business model?” (Freudenreich et al., 2020, p. 13) These questions were derived from a series of four normative principles, which were formulated to describe the stakeholder relationships of BMfs (Freudenreich et al., 2020, pp. 11-12). As this paper previously consolidated the fundamental principles of a BMfs of multiple publications, the guiding questions are slightly altered to accommodate all four fundamental qualities (Table 2). The SVCF was chosen over tools such as the value mapping tool of Bocken et al. (2013), because it is better suited for the descriptive purpose of analyzing a business from the outside and not as much geared towards the exploration of opportunities for business model innovation from the inside. The criteria were (1) the potential of capturing fundamental qualities of a BMfs and (2) the tool’s usability.

The second component of the toolbox for case analysis is the triple layer business model canvas (TLBMC). Building on the business model canvas of Osterwalder and Pigneur (2010), Joyce and Paquin (2016) developed the TLBMC as a tool to map and communicate business models that offers not just economic, but also environmental and social value considerations in line with the TBL approach. Their reasoning was that in its traditional design, in which the value is primarily seen in economic terms, these other types of value are implicitly deprioritized, which in turn impedes sustainability-oriented business model design and innovation (Joyce and Paquin, 2016, p. 1476).
Therefore, the authors added an environmental and a social canvas (*Figure 8*) as second and third layers below the conventional BMC. The environmental layer’s components were derived from the Life Cycle Assessments approach (LCA), which captures the environmental impact of a given service or product throughout its entire life cycle (Joyce and Paquin, 2016, p. 1477).

![Figure 8: The TLBMC (adapted from Joyce and Paquin, 2016)](image)

The stakeholder management perspective, which serves for attempts to balance diverse stakeholder interests, was employed for the creation of the social canvas.
In their publication, the authors further explain the individual panels of the new canvases through a case analysis. At this point, however, an in-depth look at each and every panel would be excessive, as the explanation will be given along with the upcoming case analysis.

Further, the authors describe that in analyzing the results of mapping a TLBMC it unfolds two critical dynamics: horizontal coherence and vertical coherence (Joyce and Paquin, 2016, p. 1482). A horizontal coherence in that each layer facilitates the identification of connections and dependencies between its nine individual elements. For instance, the type of materials a manufacturing company chooses to use for its products is inevitably linked with its recyclability at its end-of-life (see yellow arrow). Depending on the subject of analysis, a multitude of such interrelations can become apparent. Zooming out, the vertical coherence of the three layers allows for an identification of the links between the three dimensions of value creation, as they encompass analogue dimensions. For example, a fashion company with a global outreach is going to cause emissions throughout its production processes, which it will then have to communicate to an increasingly environmentally conscious customer base using the right channel (see red arrow).

While the SVCF takes on a stakeholder-centric perspective on value creation, the TLBMC facilitates the identification of causal effects and interrelations between the multiple elements interacting in the value creation and capture processes. The integrated TBL-approach and the possibility of relating the different layers provide a systems perspective on the firm-level dynamics, but also on how the business relates to the larger systems it is part of (e.g. natural environment). As the TBL-approach facilitates the assessment of all the elements involved the creation of sustainable value whilst mapping the business model, it represents a suitable framework for the case analysis.

The two tools are apt for the case analysis, for they provide the right perspectives to test the company for its conformity with the above established profile of a business model for sustainability, which is done in the ensuing chapter 3.
3. Case Analysis

This chapter provides an analysis of the business model of Patagonia, Inc. (from now on simply “Patagonia”). In the first section, Patagonia is introduced and the motivation for case selection are explained. In the second section, Patagonia is analyzed with the help of the two tools that were previously described in detail: the triple layer business model canvas and the stakeholder value creation framework. Subsequently, the results are connected to the research question, and it will be discussed, whether Patagonia, a highly sustainability-oriented company, represents the idea of business models for sustainability and how it implements sustainability at the core of business strategy.

3.1 Patagonia

3.1.1 Company Profile

Patagonia is an outdoor apparel company that was founded in 1973 by Yvon Chouinard in Ventura, California, in the United States of America, where it also still has its headquarters. Its holding company is the private Patagonia Works, which further holds Patagonia Provisions (food) and Patagonia Media (multimedia). Patagonia itself has one subsidiary: Tin Shed Ventures, a venture capital fund through which Patagonia invests in environmental and social start-ups.

A globally operating business, the company has stores all over the world, from the United States to Argentina and from Hong Kong to New Zealand (Patagonia Inc., 2021). According to the analytics platform Craft.co (2021), the American company generated revenues of one billion $US in the financial year of 2017 and has 2,365 employees as of July 2021.

Since 2012, Patagonia is a certified Benefit Corporation (B Corp) (Patagonia Inc., 2019, p. 1), a legal framework which will be thoroughly explained later in the chapter. In its Annual Benefit Corporation Report (2019, p. 20), Patagonia stated that their CEO Rose Marcario made them one of, at that time, 5.2 % of US
companies that had a woman at the top of their executive team. For its mission, Patagonia states:

“We’re in business to save our home planet.” (Patagonia Inc., 2019, p. 1)

3.1.2 Sustainability at Patagonia

For analysis purposes, Patagonia was chosen as a case of a highly sustainability-oriented company. The selection of this case is argued for in this section.

Today, sustainability is a very present issue, as was elaborated in the introduction. However, things were different in the late 20th century. Therefore, the fact that Patagonia identified sustainability related issues as important and prioritized them already when it was not part of the zeitgeist, points to the company’s intrinsic motivation. This is exemplified in 1984, the year in which Patagonia opened up a cafeteria serving organic and healthy foods and further inaugurated an on-site childcare center at its Ventura headquarters (Patagonia, 2021). In 1984, these were still unconventional practices. Shortly after, in 1986, Patagonia started donating 10% of profits annually to grassroots environmental groups, which was later changed to 1% of sales (Patagonia, 2021). This effort has ultimately led to the foundation of 1% For The Planet, which is a global network of more than 5,840 organizations that have committed to the same annual donation and have contributed more than 295 million US$ to primarily environmental causes to date (1% For The Planet, 2021). In assessing the impact of its own products, Patagonia identified the production of conventional cotton to be the most harmful in 1994 and had transitioned to 100% organic cotton in its apparel by 1996 (Patagonia, 2021), in spite of the fact that this lead to a stark increase in material costs and the reduction of cotton-based Patagonia was able to sell (Szekely and Dossa, 2015, p. 3). These initiatives, however, are just a few of the numerous examples of Patagonia’s pioneering environmental stewardship.

Further, Patagonia acquired the status of a certified benefit corporation (B Corp) in 2012 (Patagonia, 2019, p.1). B Corps “envision a global economy that uses business as a force for good” (B Lab, 2021). In order to be certified a B Corp, a company has to meet specific legal, performance and transparency requirements, which are verified by B Lab, the certifying third-party entity (B Lab,
Among these requirements is a biannual impact report and the assessed company has to clear a B Corp score of 80 out of 200 points, which is based on its overall positive impact. In 2019, Patagonia scored a 151.4 (Patagonia, 2019, p. 23).

A third proof for Patagonia’s high degree of sustainability orientation is that the company and its founder Chouinard, different from many other big businesses, take strong positions on political issues. This is demonstrated, for instance, in Patagonia’s 2020 campaign for the US Senate races. Leading up to the elections, Patagonia openly endorsed candidates who it thought proposed viable environmental policy plans (Patagonia, 2020).

It is this combination of aspects – the track record, the inward looking, the corporate activism – that warrant the description of Patagonia as a highly sustainability-oriented company. Therefore, Patagonia represents a suitable case that can help in finding out whether business models for sustainability can be observed in such a company.

### 3.2 Business Model Analysis

The study of Patagonia’s outdoor apparel business is done in three steps. First, Patagonia is mapped in the *triple layer business model canvas*. This tool was chosen as the first to be applied, because it enables a more holistic understanding of how the business is designed to fulfill its purpose and because it facilitates the identification of the elements contributing to value creation in the economic, the environmental and the social sphere. In the second step, the results from mapping Patagonia’s business model in the TLBMC provide a sound basis and the data to use a selection of the guiding questions proposed in the *stakeholder value creation framework* for an investigation of the company’s different stakeholder groups and how it exchanges diverse types of value through the interaction with these groups. In this part, evidence about Patagonia’s conformity with BMfS qualities is gathered to ultimately interpret the findings and answer the research question. The last part relates the findings to the BMfS concept and answers the research question.
3.2.1 Triple Layer Business Model Canvas

In the following, Patagonia’s business model is analyzed by mapping it in the three layers of the TLBMC. The information constituting the identified elements stems from primary and secondary sources, i.e. information published by Patagonia and case studies of the company. As there are various overlaps as it pertains to the elements’ contents, some are more briefly and superficially described to avoid redundance.

Economic Layer

The economic layer, just as the conventional BMC, encompasses the following nine building blocks: (1) value proposition (VP), (2) customer segments, (3) customer relationship, (4) channels, (5) key activities, (6) key resources, (7) key partners, (8) costs, (9) revenues (nomenclatures of BMC and TLBMC were mixed). As Joyce and Paquin (2016) did not specify the content of these elements, the analysis of the economic layer is based on Osterwalder and Pigneur’s descriptions (2010, pp. 20-41).

Patagonia’s value proposition (1) can be regarded as threefold. Most apparent is the offering of outdoor apparel. This offering entails not only the garments themselves, but also their qualities: durability, simplicity and (multi-)functionality (O’Rourke and Strand, 2017, p. 2). While the garments are functional for the outdoor activities the customers, their durability and multifunctionality aim to extend the products’ lifetime and to reduce consumption (Casadesus-Masanell et al., 2010, p. 4), as one piece of clothing can be used for various activities. This leads to the second value Patagonia proposes to its customers: responsible consumption with a reduced environmental impact. The company’s sustainability-orientation throughout its business activities can lead to consumer’s being more at ease with their consumption, knowing they purchase their garments from a responsible business. Related to this latter value proposition is the fact that customers may also consider the brand appeal, as Patagonia’s is widely perceived as a responsible business.

Patagonia targets a mass market, selling its garments to a diverse, global customer base. The customer segment (2), however, encompasses distinct
characteristics. Firstly, owing to the premium pricing of its products, Patagonia primarily sells to people with an elevated purchasing power. Secondly, due to the nature of its apparel, these customers are likely to enjoy the outdoors and pursue some type of outdoor activity. Thirdly, Patagonia’s reputation and transparency initiatives certainly attract people that prioritize sustainable products and are environmentally conscious.

The customer relationship (3) is consequentially one of shared values and convictions. As such, Patagonia creates space of interaction of and with its customer base in the *Stories We Wear* platform on the website of the company’s secondhand market *Worn Wear*. On *Stories We Wear*, Patagonia shares how people value their garments through sent-in personal stories (Szekely and Dossa, 2015, p. 5; Patagonia, 2021c). In this way, Patagonia further uses the interaction to display consumers endorsing sustainability and their attachment to products and brand (Michel *et al.*, 2019, p. 176). Many of the stories also describe the longevity of the products, which may lead to new consumption, but can also inspire users to repair their garments and idealize long-term use. Beyond that, customers provide Patagonia with feedback through their interactions with staff in the retail stores and with the online customer service. In this way, they participate in the business’ sustaining innovation, which is the continuous enhancement of existing products and makes up for 80% of all innovation (O’Rourke and Strand, 2017, p. 12).

Patagonia uses different channels (4) for different purposes. In order to raise awareness, Patagonia relies mostly on social media, its websites and a catalog that is published multiple times throughout the year and can be requested online. Unconventionally, Patagonia’s communication is not primarily advertising the products and trying to facilitate sales, but rather encompasses outdoor activities and information about responsible consumption and environmental issues. A popular example for this was Patagonia’s 2011 Black Friday ad in the *New York Times*, where the company published a photo of one of its popular fleece jackets with the letters “DON’T BUY THIS JACKET” above it (*Appendix II*). The intention was to advertise the *Common Threads Initiative*, which advocates for responsible, reduced consumption (Patagonia, 2011). Patagonia’s products are
purchased via its own retail stores, authorized dealers, the aforementioned catalogs and the online shop (Casadesus-Masanell et al., 2010, p. p). The garments therefore arrive at the customers either via shipping, done through conventional shipping companies like UPS, or directly in over-the-counter purchases. The after sales makes up an important part of Patagonia’s apparel business model and will be outlined later in the analysis.

While manufacturing is vital for the business model, it is not necessarily a key activity (5), in the sense that it differentiates Patagonia from competitors. In fact, the Californian company excels in its product design, product innovation and in communicating its practices and values (Rattalino, 2018, p. 752), which are the most critical areas for offering the aforementioned value propositions.

As was the case for Patagonia’s key activities, the key resources (6) are not necessarily those enabling the manufacturing of its products (i.e. physical resources). Rather, intellectual resources, such as the brand, purpose, values and ideals are what separates Patagonia from competitors. These are embodied by Patagonia employees and their corporate culture of shared purpose and commitment, which founder Yvon Chouinard extensively describes in his book “Let my people go surfing: the education of a reluctant businessman” (2006).

Due to the fact that product design and innovation are two of Patagonia’s key activities, the corresponding strategic partnerships (7) are vital for the success of its apparel business model. Beyond Surface Technologies (BST), which is partially owned by Patagonia, is one of the companies that facilitate innovation and sustainability-oriented product design (O’Rourke and Strand, 2017, p. 10) and therefore essential for Patagonia’s business model. Next to these technology-oriented partnership, like-minded companies, such as other BCorps and partners in the Sustainable Apparel Coalition or the 1% For The Planet network, allow for an exchange of ideas and represent platforms for Patagonia to diffuse eco-friendly technologies and ideas.

Even though there are no recent, publicly available financial reports, Patagonia’s cost-structure can be described as value-driven (8). As a result of the value proposition and customer segment, the apparel is defined by its characteristics
of high durability and sustainability (O’Rourke and Strand, 2017, p. 2), not by its costs. As a result, research, development, materials and production certainly make up a bulk. Next to that, wages and grants to environmental and social NGOs (Patagonia, 2019, p. 4), such as the annual 1% of sales, warrant consideration.

An outdoor apparel company, Patagonia’s revenues (9) stem mostly from its asset sales, i.e. the sale of its outdoor garments and equipment. The product prices are feature dependent in that they vary depending on the materials, the individual garments are made of. Next to the sale of apparel, Patagonia charges a fee for the repair of products in the repair facilities (Rattalino, 2018, p. 751).

*Figure 9* illustrates the economic layer of Patagonia’s apparel business model.

**Figure 9: Patagonia’s BM in the economic layer of the TLBMC**

### Environmental Layer

As explained in the previous chapter, the environmental layer’s components were derived from the Life Cycle Assessments approach (LCA), which captures the environmental impact of a given service or product throughout its entire life cycle (Joyce and Paquin, 2016, p. 1477) and assesses the environmental impacts and benefits of the business model. It encompasses (1) functional value, (2) use phase, (3) end-of-life, (4) materials, (5) production, (6) distribution, (7) supplies and out-sourcing, (8) environmental impacts and (9) environmental benefits. The elements’ meaning becomes evident throughout the analysis.
The functional value (1) describes the functional utility of the outdoor apparel for its users in qualitative terms. A company of outdoor sportspeople, Patagonia seeks to provide its customers with garments that are water-repellent, provide either cooling or warmth, and do not tear or get damaged easily. Another aspect is their multifunctionality, which enables users to use the same garment for different purposes. In order to ensure the delivery of the desired functional value, many of the garments are field tested by professional athletes, who further serve as ambassadors for the brand (Casadesus-Masanell et al., 2010, p. 4).

The use phase (2) element describes the environmental impact that occurs, when the customer uses the product. In the case of Patagonia’s apparel, this encompasses the maintenance of the garments, which covers primarily cleaning, washing and repairing. Resources consumed are water, energy and, depending on the damage, tools and materials for repair. Further, outdoor enthusiasts using Patagonia gear may cause an impact on ecosystems through irresponsible behavior. Both of these categories, however, are hardly quantifiable.

Much more relevant is the end-of-life (3) element. In 2005, Patagonia started its Common Threads Recycling program in which the firm offered consumers the recycling of cotton and fleece-based products, independent of clothing brand (Casadesus-Masanell et al., 2010, p. 8). Through the Common Threads Initiative, the company aimed to encourage the long-term use of its products. It included an online pledge over 60,000 customers had taken by 2013 (Reinhardt et al., 2014, p. 1), where customers committed to lengthen their products’ lifetime by embracing the four Rs: reduce, repair, reuse, recycle. In order to reduce consumption, Patagonia committed to produce more simplistic, durable and versatile products (Rattalino, 2018, p. 751). The firm further provides detailed repair guides and offers customers to repair damaged products in its repair centers for a fee (Rattalino, 2018, p. 751). The Worn Wear program replaced the Common Threads Initiative, and its website offers a market for secondhand Patagonia apparel. In order to encourage the reuse of garments, customers can send it in for free or bring it to one of Patagonia’s retail stores. If the product is in decent condition, they receive credits, which they can use to buy other secondhand or new products (Reinhardt et al., 2014, p. 2).
described *Stories We Wear* program is used to advertise these efforts (Rattalino, 2018, p. 751). As a last resort, irreparable garments can be sent in free of charge and they are repurposed through recycling methods. All of these measures demonstrate how Patagonia uses the end-of-life of products to avoid the disposal and therefore negative environmental impact of its products. This circularity is a central part of Patagonia’s apparel business model and shows an intensive integration of its customers.

Patagonia’s key materials (4) are those, used to manufacture its garments. As of 2019, those were still in large number virgin, petroleum-based products like polyester and nylon (48 %) (Patagonia, 2019, p. 7). 31 % were recycled materials, 16 % plant-based ones like cotton and 5 % were animal products (Patagonia, 2019, p. 7). Material processing and product manufacturing account for an astonishing 97 % of Patagonia’s carbon emissions (Patagonia, 2019, p. 8), which is why the company has set the goal to achieve the use of 100 % recycled or renewable materials and to be achieve total carbon neutrality by 2025 (Patagonia, 2019, p. 8).

Most of Patagonia’s production facilities are located in countries with lower production costs, such as China or India (Patagonia, 2021b). The production of synthetic materials like nylon and polyester requires oil and the energy consumed in the process often stems from fossil fuels (Kammen *et al.*, 2018, p. 8). The fact that production activities (5) account for a bulk of its energy consumption and carbon emissions, presents a challenge, as Patagonia does not own them and, owing to its size, has little influence over local operations (Kammen *et al.*, 2018, p. 8). Attempts to tackle these issues include the previously described transition to more recycled and renewable materials as well as the cooperation with *Bluesign Technologies*. The *Bluesign Standard* is a certification focusing on the manufacturers’ emissions and working conditions (Kammen *et al.*, 2018, p. 12). As of 2019, 32 out of Patagonia’s top 40 suppliers were *Bluesign* system partners (Patagonia, 2019, p. 7).

The distribution element (6) describes the physical means providing access to Patagonia’s functional value (Joyce and Paquin, 2016, p. 1478). These are twofold. When a customer purchases an item in the online shop, it will be shipped
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from one of its distribution centers (Casadesus-Masanell et al., 2010, p. 5), usually by a conventional shipping company like UPS. Alternatively, customers can buy Patagonia apparel in one of its 70+ retail stores. Patagonia takes steps to ensure the physical elements required for distribution have a reduced environmental impact (Kammen et al., 2018, pp. 7-8). However, as it only owns two of the buildings in which its retail stores are located (Kammen et al., 2018, p. 13) and has only limited influence over the shipping companies’ emissions, this area proves to be another challenge for Patagonia on the path to carbon neutrality in 2025 (Patagonia, 2019, p. 8).

Supplies and outsourcing (7) describes those activities which are necessary to deliver the functional value, but are not core or unique to the business model (Joyce and Paquin, 2016, p. 1478). However, virtually all activities surrounding Patagonia’s apparel offering, such as manufacturing or distribution, are described in other elements.

Reviewing the above described elements of the environmental layer, leads to an observation of the business’ negative environmental impacts (8). Contrary to the firm’s articulated intentions, most of the metrics presented in the firm’s Benefit Corporation Report of 2019 have changed to the worse, which Patagonia, explains with an increase in sales (Patagonia, 2019, p. 9). Compared to the financial year 2018 (FY18), electricity use in 2019 went up 48.2 % and CO2 emissions increased by 29.9 % (Patagonia, 2019, p. 11). Compared to past increases, these jumps are severe (e.g. Patagonia, 2017). Patagonia’s attempts to reverse these developments include enhancing and scaling circularity solutions, increasing the use of recycled and renewable materials to 100% and getting all self-controlled facilities to run on 100 % renewable energies (Patagonia, 2021a). The developments described in this paragraph are significant, yet merely captured from a short-term perspective. When observing Patagonia’s history, initiatives like the holistic integration of organic cotton in 1996 or the Common Threads, respectively Worn Wear program, through which Patagonia impacts consumption and enables waste creation of its customers since 2005, have undoubtedly prevented a lot of emissions and energy consumption.
However, the Californian company further also reduces impacts and contributes a lot of value to the environment (9). Starting at its own doorstep, Patagonia’s owned and operated facilities in the US consumed 100% renewable energy in 2019, with its facilities globally at 76 % (Patagonia, 2019, p. 12). In comparison to FY18, Patagonia averted an additional 19 % of single-occupant-vehicle trips in 2019 (Patagonia, 2019, p. 11). These numbers add to the impression of a company that does well in what it can control. Further, Patagonia indirectly contributes positively to the environment through donations it made to environmental causes, such as the annual 1 % of sales, 10 million US$ that were saved through the Trump administration’s corporate tax cut and 5 million US$ that were given to groups fighting to protect land and waters in 2019 (Patagonia, 2019, p. 4). Another immeasurable benefit for the environment are the numerous blue sky innovations Patagonia has developed and later shared with other companies, which enabled the scaling and diffusion of more eco-friendly technologies in the textile industry (O’Rourke and Strand, 2017, p. 14). An example of this was a study that lead to the adaption of 100 % organic cotton in 1996, whose results were shared with other textile companies (Szekely and Dossa, 2015, p. 3). Some of the environmental benefits of Patagonia’s apparel business can also be seen as social benefits and are therefore included in the social layer.

*Figure 10* illustrates the environmental layer of Patagonia’s apparel business model.

<table>
<thead>
<tr>
<th>Supplies and Out-sourcing</th>
<th>Production</th>
<th>Functional Value</th>
<th>End-of-Life</th>
<th>Use Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not specified</td>
<td>Fully outsourced 97% of total CO2</td>
<td>Resilience</td>
<td>Circularity</td>
<td>Cleaning of garments</td>
</tr>
<tr>
<td></td>
<td>Overseas Farms, mills, factories</td>
<td>Weatherproof</td>
<td>Avoid waste</td>
<td>water &amp; energy</td>
</tr>
<tr>
<td></td>
<td>Materials Petroleum-based</td>
<td>Durability</td>
<td>4 Rs</td>
<td>Repair of garments</td>
</tr>
<tr>
<td></td>
<td>Recycled</td>
<td>Multifunctionality</td>
<td></td>
<td>tools &amp; materials</td>
</tr>
<tr>
<td></td>
<td>Plant-based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Animal products</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental Impacts</th>
<th>Environmental Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent (strong) increase in energy and CO₂ + 42.8% CO₂ emitted; +29.9% energy consumed</td>
<td>Grants to NGOs</td>
</tr>
<tr>
<td>Owned facilities on 76% renewables</td>
<td>Blue sky innovations shaping industry</td>
</tr>
</tbody>
</table>

*Figure 10: Patagonia’s BM in the environmental layer of the TLBMC*
Social Layer

The social layer is primarily concerned with Patagonia’s stakeholder relationships and the company’s social impacts. It contains (1) social value, (2) the end-user, (3) societal culture, (4) employees, (5) governance, (6) local communities, (7) scale of outreach, (8) social impacts and (9) social benefits.

The social value (1) describes what the company perceives as its purpose and contribution to stakeholders and society as a whole (Joyce and Paquin, 2016, p. 1479). Patagonia articulates its purpose via its mission and its core values. The mission states: “We’re in business to save our home planet.” (Patagonia, 2019, p. 1) This most explicitly expresses how Patagonia perceives itself and is highly coherent with its communication efforts towards the general public and all stakeholders, visible on social media and the website. The firm’s core values are to “build the best product”, “cause no unnecessary harm”, “use business to protect nature” and to be “not bound by convention” (Patagonia, 2021d).

The end-users (2) of Patagonia’s outdoor apparel have diverse needs that are satisfied by the value propositions. Patagonia’s garments enable outdoor experiences, allow for less and more responsible consumption, help to reduce waste and satisfy moral and ethical needs. Beyond that, Patagonia’s corporate activism and explicit mission allow customers to identify with the company and partake in a joined cause. The relationship, as visible in the Worn Wear program, is collaborative and, through the reciprocal communication, reinforces values and convictions.

The societal culture element (3) encompasses Patagonia’s potential impact on society and how, through its actions, it can provide a positive influence. Patagonia’s program Patagonia Action Works is an online portal where volunteers can look for NGOs working on issues such as climate, communities and biodiversity (Patagonia, 2021e). It facilitates the process of finding NGOs via searching for location and cause. Here, people can donate, find information and sign up to volunteer for environmental and social causes. In this way, Patagonia supports these activist groups and provides a space for interaction with potential supporters and volunteers. On its website, Patagonia further provides information
and support to pro-environmental political campaigns and petitions (Patagonia, 2021a). By educating its customers and other stakeholders about environmental and social issues, the company contributes to society. Next to the support via communication and education, Patagonia regularly donates substantial financial value to NGOs, as was described earlier. The firm also serves as a positive example of a business trying to contribute to good causes and thereby challenges the assumption of a natural contradiction between for-profit organizations and environmentally and socially responsible behavior. As a result, other comparable companies can be held accountable for their actions and contributions via reference of Patagonia as a good practice example.

As an employer, Patagonia offers various benefits to its employees (4). Next to the previously described on-site childcare, health insurance premiums are covered by the company and Patagonia offers an environmental internship program (Patagonia, 2019, p. 20). In this program, employees can spend up to two months working for an environmental NGO and are continuously paid their full salary (Casadesus-Masanell et al., 2010, p. 7). This certainly touches on a fundamental benefit for many employees of Patagonia, as they are able to work for an employer whose purpose and values of environmental concern they share. As it pertains to gender equality and representation, the Californian company performs above average. With their female CEO, 47 % female executives and 50 % female board members, Patagonia easily outperforms the American averages in all of these categories (Patagonia, 2019, p. 20).

As it pertains to governance (5), the company benefits from its private ownership. Because it is still primarily owned by the Chouinard family, shareholder obligations do not influence Patagonia’s actions. Therefore, there are little restrictions for the company to adapt processes and innovations that may incur additional cost in the short-run (Kammen et al., 2018, p. 10), but align with Patagonia’s core values and proof economically viable in the long-run. In a 2019 employee survey, 91 % of Patagonia employees said it was a “great place to work” (Great Place To Work Institute, 2019). Possible reasons for this result are the shared purpose of employer an employees and the horizontal structure, which is strongly visible at the Ventura headquarters, where working hours are flexible
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and allow employees to pursue outdoor activities (Rattalino, 2018, p. 752). Transparency is another central component of Patagonia’s governance practices. On the website, the company provides information about the negative impacts, the benefits and the exact whereabouts of the international operations throughout the supply chain (Casadesus-Masanell et al., 2010, p. 6). The status of a certified BCorp and the corresponding requirements of tracking and publicly reporting on environmental and social performance also contribute to Patagonia’s transparency.

The local communities (6) impacted by the firm’s global operations are those in the vicinity of its manufacturing sites and retail operations. By maintaining long-term relationships with factory owners, which also includes regular visits to the sites (Kammen et al., 2018, p. 11), Patagonia contributes to stable employment opportunities. Attempting to ensure that the factory workers earn a living wage, Patagonia partakes in the Fair Trade USA program through which 49,200 workers received improved benefits in 2019 (Patagonia, 2019, p. 7). Communities surrounding the retail stores benefit, since Patagonia uses its presence to donate to local, grassroots environmental groups (Casadesus-Masanell et al., 2010, pp. 5-6).

The scale of outreach (7) contains the geographical dimensions of operations and the nature of stakeholder relationships (Joyce and Paquin, 2016, p. 1481). Evidently, Patagonia is a globally operating outdoor apparel company that has relationships with stakeholders such as its customers, suppliers, communities and NGOs on all continents (Patagonia, 2021g). These relationships, however, were already described and are further examined in the context of value exchanges at a later stage.

A few negative social impacts (8) of Patagonia’s business model are identifiable. Firstly, the aforementioned functional and social values proposed to the customer segment are not accessible for many consumers. This is because characteristics such as the high quality of the garments and the responsible consumption they enable lead to high costs for Patagonia’s key activities and, hence, premium prices for its outdoor apparel. This effect is somewhat alleviated by the lower prices for secondhand apparel on the Worn Wear website, but warrants
consideration, especially in Patagonia’s demanding communication towards consumers. Secondly, environmental impacts, such as the pollution from Patagonia’s production sites, are externalized to countries, where production costs are lower. While this pollution ultimately impacts the whole planet, it initially takes its toll on local communities. However, as described above, Patagonia has only limited power on its producers, who also produce for other global textile companies (Kammen et al., 2018, p. 8).

The social benefits (9), i.e. the ways in which stakeholders benefit from Patagonia’s apparel business model, are diverse. Stakeholders like employees, NGOs, customers, suppliers, communities and society as a whole benefit from and contribute to Patagonia’s operations. These reciprocal relationships, however, are more precisely analyzed with the stakeholder value creation framework, hereafter.

*Figure 11* illustrates the social layer of Patagonia’s apparel business model.

![Figure 11: Patagonia’s BM in the social layer of the TLBMC](image)
3.2.2 Stakeholder Value Creation

Based on the data collected using the TLBMC, Patagonia’s different stakeholder relationships and their value creation dynamics are discussed in this section using the stakeholder value creation framework. Four of the eight questions provided by Freudenreich et al., (2020, pp. 12-13 ). The four questions were selected, because they enable the assessment of Patagonia’s business model in the context of BMfS. Thus, this analysis aims to gather evidence about the conformity of Patagonia’s apparel business model with business models for sustainability.

Question 1: Who are the stakeholders in and beyond the five stakeholder groups identified in the framework?

As was discussed in the first part of the analysis, Patagonia interacts with a number of different stakeholders through its outdoor apparel business model. Those carrying the most significance are customers, employees, strategic partners, suppliers, local communities, NGOs and the environment as a stakeholder in its own right. Aside from these, the Californian company also interacts with states, competitors, network partners, universities, shipping companies and many more. In fact, the causal chains of any globally operating organization can be followed to nearly every institution or individual, some way or another. For the purpose of this research, however, the remainder of the discussion revolves around the most significant groups.

Question 2: To what extent are each of these stakeholders engaged in identifying and solving sustainability issues?

Patagonia’s customers are a key factor in the company’s pursuit towards more sustainability. In order to iteratively improve products for more durability, Patagonia has to identify the weak points of its garments. Such weak points can be identified, when customers return their garments for related reasons or when they send them in for repair. This, along with direct feedback via Patagonia’s customer service, leads to sustaining innovation. More generally, they help in solving end-of-life issues, which are part of any textile business, by participating
in all facets of Patagonia’s *Worn Wear* program and thus enabling circular solutions.

Employees primarily help in identifying sustainability related issues through their operational functions in the business. They may, for instance, identify room for improvement, where processes are running inefficiently and therefore lead to an increase in emissions. As they are what makes up Patagonia, employees are likely accountable for the identification of numerous sustainability issues. An evident example for how employees help solving issues, is when they develop more sustainable solutions for garment design as part of their research and development activities.

This latter is also the primary point of involvement for Patagonia’s strategic partners. Meant are partners, as for instance *Beyond Surface Technologies*, develop innovations addressing and solving sustainability issues in Patagonia’s product line. Another important strategic partner is *Bluesign Technologies*, the company responsible providing the certification standard used for Patagonia’s suppliers, who are responsible for the bulk of emissions in Patagonia’s operations.

Those suppliers may help to identify sustainability issues through transparent and reliable communication of emissions and harmful byproducts, potentially solving them by making alterations to their operations.

Local communities, just as NGOs, may fulfill a watchdog function in that they point to environmental harm caused by Patagonia’s products or operations, as for instance when a study of *Greenpeace* of Durable Water Repellents, such as that of Patagonia (O’Rourke and Strand, 2017, p. 1). NGOs cooperate with Patagonia to solve sustainability issues in a rather indirect, yet important manner. They frequently join forces or offer mutual support to advocate for more rigorous political action for the protection of the environment and for fighting climate change.

The environment’s role in the identification of sustainability issues is straightforward, as it is the stakeholder suffering most often from such problems. It can be argued, that in instances where solutions to existing problems were
developed using biomimicry (O’Rourke and Strand, 2017, p. 13), the environment assisted in solving those issues. Above all and most importantly customers, strategic partners and NGOs.

Stakeholders are essential for Patagonia’s attempts to solve sustainability issues. Those most critical for the functioning of the company’s solutions are undoubtedly the customers, through their participation in the circular business model, and partners and employees, who through their innovations enable the durability of products.

Question 3: What is the joint sustainability-related purpose of the business model, and how does it provide a basis for stakeholders to engage in value creation with the focal business?

Patagonia’s mission statement is: “We’re in business to save our home planet.” (Patagonia, 2021c). While this mission is unapologetic and certainly shared by NGOs, it is not a joint purpose all stakeholders can rally around it. It is rather Patagonia’s core values, which express the company’s will to optimize its products, cancel out unnecessary negative impacts, employ business to protect the environment and to be innovative (Patagonia, 2021c), that unite the diverse stakeholder views. The core values largely constituted the mission statement Patagonia had until 2018, namely: “Build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis.” (Reinhardt et al., 2014, p.11) Since its change in 2018 (Patagonia, 2019, p. 1) the mission statement more explicitly displays the company’s environmental stewardship and activism, but no longer addresses all of its stakeholders.

For instance, stakeholders like Patagonia’s suppliers and strategic partners certainly share the ambition to optimize products and even to avoid unnecessary negative impact. A garment manufacturer in China, whose business relies on large scale production, however, is likely not seeing the solving of environmental problems as his upmost priority.

Patagonia’s core values, i.e. the old mission statement, cover the diverse stakeholder perspectives. The firm’s customers do want to buy high-quality products, but they are also environmentally conscious. So do employees, who
understand the economic necessities, but work to minimize impacts and advocate for sustainable behavior, simultaneously. Among the key partners are R&D companies like BST, who develop blue sky innovations to increase the products’ eco-efficiency and reduce harm, and who thus appreciate Patagonia’s innovative, out-of-the-box style of thinking. Local communities may benefit from the expressed intention to minimize negative impact, for which NGOs hold the firm accountable. These organizations likely share Patagonia’s assessment of the need to actively use business for environmental protection. While it is difficult to answer this question in regard to the environment as a stakeholder, it certainly benefits from the corporate activism and the environmental consciousness, conveyed by Patagonia’s mission and core values.

In summary, it can be observed that Patagonia manages to capture the interests and views of all significant stakeholders in its sustainability-oriented purpose. It is therefore a true joint purpose, that promotes the creation of diverse types of value.

Question 4: What are value propositions offered to each stakeholder group, and do they reflect the diversity of different types of value?

Customers are offered different types of value through multiple value propositions. By offering functional outdoor apparel that enables outdoor experiences, which simultaneously represents a brand that is widely positively connotated, Patagonia offers social value to its customers. The possibility of responsible consumption is another social, maybe even moral value offered. Through the possibility to reduce waste, the circular end-of-life solutions and the company’s efforts to educate its consumers about more sustainable behavior, it further provides de facto environmental value.

Employees are proposed multiple types of benefits next to their salary, which is an economic value. The environmental internship program and the on-site childcare facility, for instance, provide social value as they allow employees to support NGOs whose commitments they share and to better combine family with work. Generally, Patagonia employees are likely to share their employer’s articulated values and are therefore able to commit for a cause they believe in, which can also be seen as a type of social value. Moreover, Patagonia has
already achieved for 76% of its globally owned facilities to be powered by energy from renewable sources, which enables employees to reduce their environmental footprint, whilst at work. Creating the conditions for more people to work with a reduced carbon footprint is environmental value offered to employees.

The value Patagonia’s R&D partners receive is mostly of economic nature, as they are paid for the solutions they provide. In the past, Patagonia has shared these solutions with network partners such as those in the Sustainable Apparel Coalition. Here, Patagonia offers ideas, innovations and best practices, which allow for the partner companies to create economic and possibly environmental value. The information shared is a type of economic value.

Patagonia’s suppliers primarily receive economic value, as they are paid for the materials, the manufacturing and the transporting services they provide. The local communities in the vicinity of production facilities have benefitted in the past from additional benefits that were paid to factory workers through the Fair Trade USA program.

The value proposed to NGOs is twofold. On the one hand, there are the millions of US$ in grants that Patagonia gives to NGOs annually, as for instance with its donation of 1% of sales. This is clearly economic value. Beyond that, Patagonia provides a platform for and vocally supports NGOs and the causes they stand for, thereby providing social value.

All the environmental value propositions discussed previously along with Patagonia’s role as an educator and advocate of environmental issues benefit the environment.

3.5 Relating Findings to BMfS

After the thorough examination of Patagonia’s business model and the analysis of its stakeholder value creation relationships, sufficient evidence was collected for the assessment of the conformity of Patagonia’s outdoor apparel business model with the concept of business models for sustainability, as established in chapter 2. This section discusses to what extent Patagonia embodies the fundamental qualities of BMfS and whether it represents any of the BMfS
archetypes described by Lüdeke-Freund et al. (2016), which offers an insight into how the BMfS are implemented into the company’s practices. In the end, the research question is answered.

3.5.1 Fundamental Qualities of BMfS

In order to assess whether Patagonia’s business model can be considered a BMfS, this section discusses how the company relates to each of the four fundamental qualities of a business model for sustainability, as established in chapter 2.

1. The normative statements (purpose, mission, values) reflect the company’s sustainability-orientation.

The first fundamental quality is addressed in the answer to question 3. Patagonia’s normative statements, its mission and its core values, explicitly express the company’s sustainability orientation. As seen in the second part of the analysis, the firm further manages to address all of its key stakeholders via the core values. Patagonia’s mission states the rescue of planet earth as its purpose. While this unapologetically claims an environmentalist orientation, the core values are an essential extension, as they further indicate the economic and entrepreneurial spirit of the Californian firm. Thus, the normative statements capture the diverse interests of Patagonia’s most important stakeholders and simultaneously manage to convey the strong sustainability orientation at the core of the business model.

Patagonia’s normative statements most explicitly reflect the company’s sustainability-orientation. However, it is the sustainability-related joint purpose, as outlined in answer to question 3, that retrospectively appears even more central to the company’s ability to place sustainability at the core of its business strategy. Such a purpose needs to be joint, in order to develop productive stakeholder relationships that facilitate the pursuit of that purpose.
2. The company perceives itself as part of a number of far-reaching systems.

A globally operating outdoor apparel company, Patagonia is clearly a part of different social, environmental and economic systems. As shown through the SVCF, the company constantly interacts with numerous stakeholders, including the ones more specifically described throughout the analysis, but also many others. The fact that the analysis of stakeholder relationships yielded such diverse forms of interaction, demonstrates Patagonia’s awareness of its numerous interrelations and the causal chains resulting from its operations. In coherence with the normative statements, Patagonia’s circumspection becomes most evident in its handling and communicating of environmental issues, which are an aspect in most of its stakeholder relationships.

3. A holistic consideration and integration of all stakeholders (including the environment) is provided.

Patagonia’s stakeholders are identified in the answer to question 1 and their interactions are addressed throughout questions 2, 3 and 4. Among the key stakeholders identified were customers, employees, suppliers, strategic partners, local communities, NGOs and the environment. It was further shown that Patagonia actively fosters these relationships. As such, value is created with and for not only customers and employees, but also stakeholders like NGOs and local communities. While the consideration and integration of all stakeholders, as posited in the fundamental qualities, is difficult to assess and likely never fulfilled entirely, Patagonia interacts considerably with the stakeholders identified through the application of TLBMC and SVCF.

It is this multitude of interactive relationships, which entail value creation and exchange processes, that constitute Patagonia’s apparel business model and enable this function. Therefore, the company’s stakeholder consideration and integration practices speak to its conformity with the third fundamental quality of BMfS.
4. *Sustainable value, made up of the triad of social, ecological and economic value, is the product of the company’s actions and the concept through which it defines its success.*

Question 4, in conjunction with elements of the TLBMC (particularly *revenues*, *environmental benefits*, and *social benefits*), facilitated the reflection of the different types of value, Patagonia creates in the interaction with its stakeholders. While economic value creation, especially in the form of revenue, is a basic requirement for the business’ persistence, the Californian company also creates social and environmental value in some of its stakeholder relationships. Notably, the customer relationship is visibly extended beyond the exchange of product for money. Owing to the circular end-of-life solutions offered, for instance, in the *Worn Wear* program Patagonia assists its customers in reducing waste and thereby creates environmental value. An example for the social value created in the business model is Patagonia’s support of NGOs. By giving these organizations a platform and by facilitating interaction between potential supporters and these organizations, Patagonia strengthens their causes. Independent of the specific orientation of these NGOs, they ultimately aim to benefit society.

In conclusion, Patagonia’s outdoor apparel business model can be described as creating sustainable value and therefore possess this fundamental quality of business models for sustainability.

**3.5.2 BMfS Archetypes in Patagonia’s Business Model**

The archetypes of business models for sustainability of Lüdeke-Freund *et al.* (2016, p. 48) were introduced in chapter 2 (see Table 2). Patagonia’s outdoor apparel business model features a number of these BMfS archetypes, which illustrate how the company implements BMfS. In the following, one type with largely environmental impacts, one with primarily social impacts, and one with mostly economic impact are presented.
Substituting with renewables and natural processes (environmental)

The authors define this archetype as the “use of non-finite materials and energy resources” (Lüdeke-Freund et al., 2016, p. 48). Patagonia’s challenges in the context of its supply chain were outlined in the first part of the analysis. In the facilities the company owns, however, Patagonia has already succeeded in primarily consuming energy stemming from renewable sources. On its US sites, 100 % of the energy consumed is already obtained from renewable sources and globally, Patagonia stood at 76 % in 2019 (Patagonia, 2019, p. 12). Other examples of the prioritization of switching to renewable energy sources, include the solar panels on the campus of Patagonia’s headquarters, covering 20 % of consumption, or those installed at the Australian headquarters, which cover up to 75 % of the local consumption (Kammen et al., 2018, pp. 7-8). The use of renewable energy evidently provides an environmental benefit.

Encouraging sufficiency (social)

Such archetypes encompass “solutions that actively seek to reduce end-consumer consumption” (Lüdeke-Freund et al., 2016, p. 48). Patagonia’s customer relationship revolves around reducing consumption and extending the lifetime of its products. As was previously described in detail, the company seeks to reduce the number of garments a consumer uses by designing them for durability and multifunctionality. Once the gear is damaged, consumer’s can either use the repair guides on Patagonia’s Worn Wear website or send them in for repair. Further, the clothes are passed on and reused via the secondhand online shop, which is also located on the aforementioned website. Garments that are irreparable can be returned and are recycled by Patagonia, in order to avoid waste creation. This 4R strategy is accompanied by information that seeks to educate customers on responsible consumption and reduced waste creation. The totality of these efforts represents a clear example of an archetype providing social benefits by encouraging consumers’ reduced consumption.

Repurposing for society/ environment (economic)

Lüdeke-Freund et al. (2016, p. 48) state that these business models “seek to create positive value for all stakeholders, in particular society and environment”.

A benefit corporation, Patagonia pledges to fulfill precisely this purpose. Next to changes in Patagonia’s legal statutes, this encompasses that the firm’s overall impact assessment is verified by the third-party Blab and Patagonia has to publish the corresponding annual BCorp report, to create public transparency (B Lab, 2021). Next to those explicit actions required for the certification, the joint purpose Patagonia shares with its stakeholders expresses the firm’s ambition to create value for all, first and foremost the environment. Due to the firm’s long track record of environmental and social stewardship, it can be argued that receiving the BCorp certification in 2012 was merely a formalization of what the company had already practiced for decades.

3.5.3 Patagonia – BMfS in Practice

The research question was:

*Can business models for sustainability be observed in highly sustainability-oriented companies and, if so, how are they implemented?*

In order to answer the question, the case of Patagonia’s apparel business model was analyzed, using first the TLBMC to identify the relevant aspects and, subsequently, the SVCF to interpret results in the light of stakeholder value creation. In relating Patagonia to the BMfS concept established in chapter 2, the third section offered the insights needed to answer the research question.

As Patagonia clearly exhibits the fundamental qualities and features various BMfS archetypes, the Californian company has to be considered an excellent case example of BMfS. The fundamental qualities that were consolidated along with the archetypes of Lüdeke-Freund et al. (2016) proved to be a useful combination, as it allowed to not only to see if Patagonia checks all relevant boxes, but also to see how the firm manages to do so. As such, **stakeholder integration** and the **creation of diverse types of value** stood out as key qualities. Business models for sustainability are implemented, when those qualities are internalized and employed to pursue a joint sustainability-related purpose.
4. Conclusion

4.1 Summary

This thesis aimed to add to the research on business models for sustainability, which is relatively young concept. So far, no widely accepted definition and framework of BMfS has been developed, related literature is diverse, and research appears to be little coordinated.

Therefore, chapter two of this research aimed to consolidate some of the theoretical contributions that were made so far. BMfS literature was systematically searched for, reviewed and based on the findings, a theoretical groundwork was established. The groundwork includes a novel definition of BMfS, fundamental qualities that BMfS ought to possess and a number of BMfS archetypes, as proposed by the literature. Moreover, tools were identified that subsequently assisted in the analysis of Patagonia’s outdoor apparel business model.

The analysis of Patagonia’s business model consisted of three main steps. First, qualitative data was collected from primary and secondary sources and presented through the triple layer business model canvas. This data subsequently served as the basis for an assessment of Patagonia’s business model with the help of the stakeholder value creation framework. In the last step, Patagonia’s business model was reflected, using the results of the two analyses. It was tested for its conformity with the BMfS concept, established in chapter 2 and the research question was answered.

Overall, this thesis offers two main contributions. Firstly, it provides a consolidation of BMfS theory, resulting in a definition and a set of fundamental qualities. Secondly, it tested this concepts applicability and showed that it serves to describe a highly sustainability-oriented company, such as Patagonia.
4.2 Critical Reflection & Outlook

However, this study’s results are also limited. First of all, the use of a single case analysis is not fit to offer representative results. In order to test theory and arrive at reliable, representative results, the analysis of multiple, diverse businesses is required. Further, the data collected varied in its age, as the case studies were up to eleven years old. This possibly has the effect, that meaningful recent developments did not receive the appropriate attention. Moreover, the selection of data introduced personal bias and, as the data employed in the case analysis was primarily qualitative, the interpretation of findings is not free of subjectivity.

The dispersion of the often uncoordinated literature makes it difficult to quickly gain an adequate inside into the field and as there are no widely accepted concepts to this day, many research attempts are preceded by literature reviews. Hence, more coordinated research attempts into BMfS can help the overall progress of the field to ultimately increase its relevance for practitioners. This thesis further identified the need for more approaches that aim to consolidate theory into one holistic BMfS concept. In a second step, a potential research avenue is the development of tools, which explicitly seek to help identify, innovate or implement BMfS.
Bibliography


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Global Reporting Initiative (2020) The GRI Standards: the global standards for sustainability reporting. Amsterdam. Available at:


## Appendix

### I. Identified Literature

<table>
<thead>
<tr>
<th>Author(s) (Year)</th>
<th>Title of Publication</th>
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<tbody>
<tr>
<td><strong>Stubbs and Cocklin (2008)</strong></td>
<td>Conceptualizing a “Sustainability Business Model”</td>
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<tr>
<td><strong>Schaltegger, Lüdeke-Friend and Hansen (2012)</strong></td>
<td>Business cases for sustainability: the role of business model innovation for corporate sustainability</td>
</tr>
<tr>
<td><strong>Bocken, Short, Rana and Evans (2013)</strong></td>
<td>A value mapping tool for sustainable business modelling</td>
</tr>
<tr>
<td><strong>Bocken, Short and Evans (2014)</strong></td>
<td>A literature and practice review to develop sustainable business model archetypes</td>
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<tr>
<td><strong>Jones and Upward (2014)</strong></td>
<td>Caring for the future: The systemic design of flourishing enterprises</td>
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<tr>
<td>Abdelkafi and Täuscher (2016)</td>
<td>Business Models for Sustainability From a System Dynamics Perspective</td>
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<tr>
<td>Joyce and Paquin (2016)</td>
<td>The triple layered business model canvas: A tool to design more sustainable business models</td>
</tr>
<tr>
<td>Evans, Vladimirova, Holgado, van Vossen, Yang, Silva and Barlow (2017)</td>
<td>Business Model Innovation For Sustainability: Towards a Unified Perspective for Creation of Sustainable Business Models</td>
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<tr>
<td>Lüdeke-Freund and Dembek (2017)</td>
<td>Sustainable business model research and practice: Emerging field or passing fancy?</td>
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<tr>
<td>Lozano (2018)</td>
<td>Sustainable business models: Providing a more holistic perspective</td>
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<tr>
<td>Lüdeke-Freund, Carroux, Joyce, Massa and Breuer (2018)</td>
<td>The Sustainable Business Model Pattern Taxonomy – 45 Patterns to Support Sustainability-Oriented Business Model Innovation</td>
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<tr>
<td>Cosenz, Rodrigues and Rosati (2020)</td>
<td>Dynamic business modeling for sustainability: Exploring a system dynamics perspective to develop sustainable business models</td>
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<tr>
<td>Bocken and Geradts (2020)</td>
<td>Barriers and drivers to sustainable business model innovation: Organization design and dynamic capabilities</td>
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<td>Schneider and Clauß (2020)</td>
<td>Business Models for Sustainability: Choices and Consequences</td>
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<tr>
<td>Pedersen, Lüdeke-Freund, Henrique and Seitanidi (2021)</td>
<td>Toward Collaborative Cross-Sector Business Models for Sustainability</td>
</tr>
<tr>
<td>Bocken and Short (2021)</td>
<td>Unsustainable business models – Recognising and resolving institutionalised social and environmental harm</td>
</tr>
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</table>
II. Patagonia Ad

Patagonia’s 2011 Black Friday ad in the New York Times (Patagonia, 2011)