

TASK FORCE MEETING: SUSTAINABLE BUSINESS MODELS FOR ORGANIC COTTON

MEETING HIGHLIGHTS

1. Background

The Textile Exchange Multi Stakeholder Inquiry Process originates in the successful use of this technique by the research and consulting firm Change Agency in a range of commodities. Change Agency offered to carry out an Inquiry pro bono for Textile Exchange. Essentially, the technique is to find organisations which are successful in a particular endeavour – in this case, bringing organic cotton to the retail market – and ask them all the same set of questions in structured telephone interviews. The interviews were carried out by Simon Cooper and Alison Ward. For a detailed summary report, see Appendix B ('Organic Enters the Next Phase', page 5).

2. Feedback of interview discovery process conclusions

In Istanbul, the consultants Simon Cooper (Change Agency) and Alison Ward shared the findings of the inquiry process as a basis for discussion for the task force meeting participants. A full list of attendees can be found in Appendix A (page 4).

By conducting 25 telephone interviews of leading textile retailers and brands and asking company representatives the same set of questions around organic cotton sourcing in a structured way, Change Agency identified a number of common themes. These themes, or success factors, were grouped in three meta-categories:

- Reducing Risk
- Price & Economics
- People & Motivation

A further distinction identified by Change Agency relates to two different implementation types in terms of organic cotton efforts or initiatives. These are 1: solo initiatives that companies can implement themselves or 2: group initiatives that require industry-wide co-ordination and organisation.

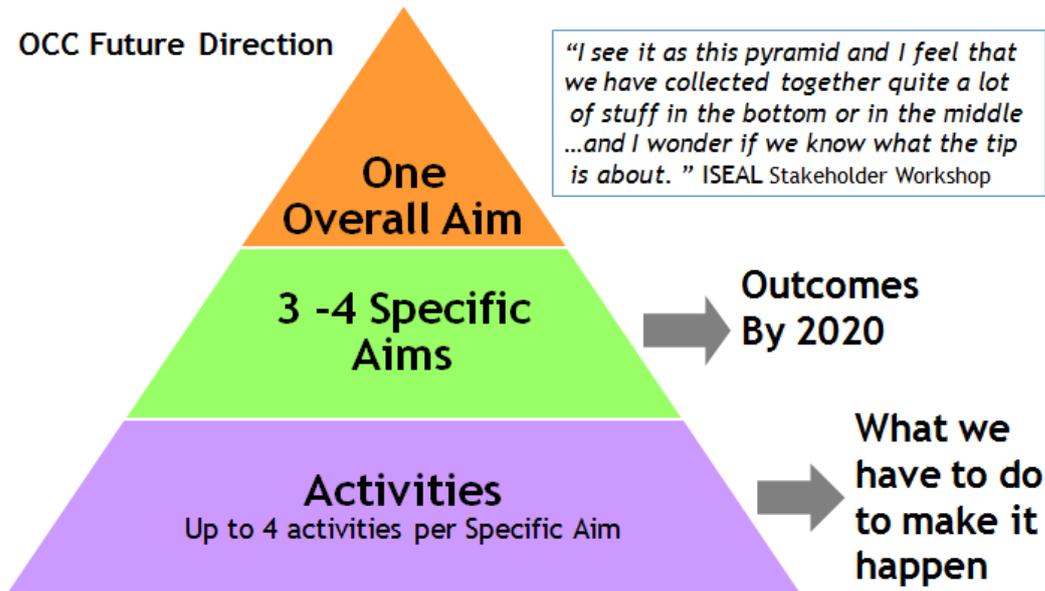
3. Key task force discussion highlights

During the discussion on potential next steps, participants identified a number of challenges. Group discussion generated further ideas, which can be summarised as follows:

- **PERCEPTION OF QUALITY** - There continues to be a perception that organic is of lower quality than conventional. The industry needs to overcome this misconception to support an emerging increase of organic cotton use amongst high quality fabric producers. It is true that some brands aim to introduce organic into mainstream production lines (such as their “basics” collection) as a way to manage risk (rather than as a quality control measure). TE is also aware that some brands associate organic *with* quality (e.g. Peruvian extra long staple organic, Aegean organic, etc).
- **QUANTIFICATION OF BENEFITS** - For organic cotton (as well as for other more sustainable fibres and raw materials) there continues to be a lack of robust data which will enable us to make the business case. For retailers and brands that includes environmental impact data to feed into existing and emerging metrics and covers both the negative environmental impacts as well as the positive gains resulting from long-term and sustainable practices. For farmers, robust data is needed to demonstrate the financial benefit of organic cotton to them, both in terms of growing organic cotton in the short (i.e. 1-2 seasons) and longer-term (3-5 years) as well as growing organic cotton vs. other more sustainable cotton vs. conventional cotton. In the future, cost “externalities” such as occupational health & safety, natural capital and ecosystem services (such as clean water and soil fertility) may eventually be internalised in conventional Profit & Loss accounting, until then socio-economic and environmental benefit (the business case) needs to be expressed via impact assessment and life cycle analysis.
- **THE IN-CONVERSION YEARS** - In the early days (i.e. 2003-04) of organic cotton, the cotton options included conventional, organic and ‘organic in-conversion’. Today, the pool of ‘in-conversion’ organic cotton has almost disappeared and with it new sources of organic cotton that are needed to grow the sector. Ways to collectively support in-conversion organic need to be explored, including the use of Fairtrade (and its premium), teaming with socially-orientated investor lending, and exploring whether greater alignment with other cotton sustainability initiatives (e.g. BCI, CmiA) could fill this space in the future as a ‘stepping stone’ to organic.
- **DEDICATED ORGANIC COTTON BODY** - Unlike the other major cotton sustainability initiatives (i.e. BCI, CmiA and Fairtrade), organic cotton lacks an organisation or body that helps build its market. A dedicated team (e.g. in the form of a Secretariat) should be guided by a clear global strategy with collective goals, defined initiatives, sets of rules for integrity, farm systems, sourcing, communication, etc. If the industry wants to scale up the organic sector, new tools and mechanisms need to be identified (probably in the form of a dedicated organic cotton body) and the resource and funding implications addressed.

The Business Models Task Force decided that an Organic Cotton Accelerator (OrCA) should be set up within Textile Exchange. Its activities will include scaling up organic cotton by encouraging demand and supply to grow in step.

A priority exercise in two separate groups led by Helen Crowley (Kering) and Leslie Johnston (C&A Foundation) started to work out the Overall Aim that guides the future direction of OrCA as well as Specific Aims to be achieved by 2020. These will cover the top two layers of the triangle below:



4. Next steps and timelines

Over the past few days, the leaders (Leslie and Helen) and Textile Exchange reviewed the exercise notes and propose the following wording for the Overall OrCA Aim:

"To build and grow a flourishing organic cotton market that benefits all from farmer to consumer".

Additionally, the notes generated 7 proposed Specific Aims that the leaders group and Textile Exchange seek to refine down to 4 by asking Task Force meeting participants to vote on their top 3 Specific Aims. Participants were requested to respond by Thursday, 28th November 2013 and can choose from the following list:

| Specific Aim |
|---|
| Responsibly grow, educate and empower the value chain for organic cotton production |
| Define "best practice" in organic production , collect data on benefits, implement and support strategic research project |
| Promote and develop business coalitions to support robust demand and supply for organic cotton |
| Improve quality across the supply chain – with a particular focus on farmers and their livelihoods |
| Establish a clear and unequivocal business case for organic cotton – to brands and to farmers |
| Bring together stakeholders (producers and buyers) in a "market making" platform that effectively addresses key constraints |
| Lead effort to ensure the adoption of an effective certification to enable more transparency across the chain |

Once the Overall Aim is confirmed and the Specific Aims defined by the Task Force meeting participants, Textile Exchange will reconvene all participants in an online forum to define the third layer 'Activities'. The Activities will then be finalised and developed in conjunction with a business and funding plan for OrCA.

Textile Exchange intends to repeat the interview discovery process over the coming months (subject to funding) involving other key stakeholders along the value chain.

APPENDIX A: TASK FORCE PARTICIPANT LIST

| Surname | First Name | Title | Organisation |
|-------------|---------------|---|------------------|
| Cooper | Simon | Partner | Change Agency |
| Green | Thomas | CFO | CottonConnect |
| Ward | Alison | CEO | CottonConnect |
| Chamberlain | Philip | Head of Sustainable Business Development | C&A |
| Johnston | Leslie | Executive Director C&A Foundation | C&A Foundation |
| Rajan | Sreeranga | CEO India | Dibella |
| Quinn | Shona | Sustainability Leader | Eileen Fisher |
| Nachiar | Vijayalakshmi | Founder | Ethicus |
| Kokke | Maaïke | Corporate Responsibility Communications & Sustainable Materials | G Star |
| Sevindik | Hulya | Material Manager for Europe Region | H&M |
| Alegre | Jose | Kids Buying | Inditex |
| Akkun | Murat | CSR Director Turkey | Inditex |
| Castaneda | Sandra | Senior Advisor Sustainability | Inditex |
| Crowley | Helen | Conservation & Ecosystem Services Specialist | Kering |
| Wunderwald | Michael | Senior Manager Materials Research Materials Innovation Lab | Gucci (Kering) |
| Godfrey | Rhett | Director Sustainability Initiatives | Loomstate |
| Ramsden | Ben | Founder and CEO | Pants to Poverty |
| Zaroff | Marci | Founder | Portico |
| Bassett | Nicole | Director of Sustainability | PrAna |
| Dierks | Stefan | Category Leader CR Product & Strategy | Tchibo |
| Denes | Hanna | Farm Program Manager | Textile Exchange |
| Nordmeyer | Daniela | Project Manager | Textile Exchange |
| Truscott | Liesl | Director of TE Europe & Farm Engagement | Textile Exchange |

TASK FORCE MEMBERS UNABLE TO ATTEND:

| | | | |
|-----------|-----------|---|------------------|
| Lippino | Rita | Corporate Citizenship Advisor | Anvil / Gildan |
| Reidick | Michael | Business Development | C&A |
| Zeegers | Ingrid | Sustainable Business Development | C&A |
| Hellmann | Ralf | CEO | Dibella |
| Heimann | Rolf | Head of Innovation and Ecology | hessnatur |
| Lampa | Henrik | Environmental Sustainability Manager | H&M |
| Witmeur | Charlotte | Vice President Global Sourcing | Jackpot / IC Co. |
| Rauer | Felix | Senior Manager Sustainable Products | Otto Group |
| Streubig | Andreas | Division Manager Corporate Responsibility | Otto Group |
| Thompson | Ryan | Materials Quality and R&D Manager | Patagonia |
| Sabori | Derek | Sr. Director, Sustainability | Volcom (Kering) |
| Nicholson | Christina | Director Sustainable Development | Williams Sonoma |

APPENDIX B: INTERVIEW CONCLUSIONS – ORGANIC ENTERS THE NEXT PHASE

Organic Cotton Multi Stakeholder Interviews:

PROJECT OBJECTIVE

The Textile Exchange Multi Stakeholder Interviews originated in the successful use of the technique by the research and consulting firm Change Agency in a range of commodities. Working in coffee, tropical forest products and cotton had proved that stakeholder inquiry could yield significant transferable learning. Change Agency offered to carry out an Inquiry pro bono for Textile Exchange.

Essentially, the technique is to find organisations which are successful in a particular endeavour – in this case, bringing organic cotton to the retail market – and ask them all the same set of questions in structured telephone interviews. The interviewers were Simon Cooper and Alison Ward, who conducted 25 interviews with successful companies. The interviews were transcribed and the scripts compared to see what common themes emerge. A number of analysts have gone through the transcripts and their combined findings are summarised below.

HEADLINE FINDINGS

As is the case with all of Change Agency's other Inquiry programmes, a number of common themes – success factors - emerged from these successful organisations. Although they vary greatly in size, geographic coverage and history, it is remarkable that the same success factors were mentioned in so many cases. To aid understanding and transferability, the factors are grouped into three **meta-categories**:

- Reducing Risk
- Price & Economics
- People & motivation

The factors also fall into two **implementation types**:

- Solo Initiatives that companies can implement themselves
 - These are ideas that have proved successful in one context that can be adopted by another without much adaptation. They are not commercially confidential but will need cross-promotion and proper documentation to encourage the spread of the idea.
- Group Initiatives that require industry-wide co-ordination and organising
 - These are concepts that need a central co-ordinating body to make them work, such as collating demand predictions to ensure adequate supply, or ensuring that economic benefits are shared fairly through the supply chain, particularly at the farm level.

DETAILED FINDINGS

The findings are organised into three meta-categories and a fourth 'making it happen' collection of initiatives.

REDUCING RISK

- **Find a strategic product placement** to underpin your organic cotton production, rather than launch a new “organic cotton collection” as a bolt-on with unknown sales prospects. For example:
 - One company is converting its mainstream lines to organic as supply allows – they know how much of the mainstream items sell each year, so they know how much organic cotton they need.
 - One company we spoke to supplies thousands of organic cotton uniforms for a major restaurant chain – at a known quantity and price which makes supply planning easier and gives financial stability to support other organic retail lines.
 - A pioneering company we spoke to has converted all cotton to organic. The integration of this decision and approach to business, resonates profoundly with the company’s passion and respect for the environment. Their great reputation and customer loyalty is a success story.
- **Ensure availability of supply** by building strong supply chain relationships and making your demand levels known to farmers before they plant their crop. A few companies are doing this well. However, for the most part:
 - **Individual companies need to establish stronger mechanisms to communicate with their supply chains.**
 - Individual demand predictions provide a weak signal to farmers. Creating a mechanism like a Demand Alliance – pooling companies’ expected demand on a confidential basis – would cause supply to match demand much more closely.
 - Big companies and small companies would both benefit from a Demand Alliance, but small companies, particularly when working within vertically integrated or consolidated supply chains would have the additional benefit of being part of a large volume market signal that they could not achieve alone.
 - **It is clear that the benefit to farmers/ farming groups needs to be identified and communicated, as part of the business framework**
- **Certification is necessary but may not be sufficient**
 - Organic certification is necessary to prove that your product has integrity, but more knowledge of your supply chain is needed to ensure that a rounded set of benefits is reaching the source of your cotton. The Central Coordinating Body can help with this knowledge.
- **Organic cotton is difficult and complex**
 - TE should produce an “Organic Cotton 101” guide for those just about to start using organic cotton in their ranges.

PRICE AND ECONOMICS

- **Achieve a financial model that works for the business**
 - The lifetime price achieved by a clothing range is comprised of its initial launch price, followed by the stages of discount or sale prices that are required to clear out the stock at the end of its life. One company interviewed explained that, even though they don't charge a higher initial price for organic items, organic ranges experience less discounting to achieve good sales, so the average lifetime price is higher, and net profit is higher.
 - The reputation of organic needs to be synonymous with quality and attuned with a company's identity; e.g. "luxury" or "lifestyle". One holding company we spoke to has a strong sustainability drive coming from the top of the organization which helps. Creating sustainable fiber strategies that flex with the culture and needs of their brands is critical to the uptake and ownership of any sustainability improvements.
- **Ensure the economic benefit reaches the source**
 - One of the biggest dangers these days is that any 'premium' charged at the consumer end seems to dissipate through the supply chain and not reach the farmer. New financial models which ensure the benefit gets to the source are critical to securing supply, relieving poverty, and quite frankly critical to keeping farmers interested.
- **Ensure product quality**
 - The technical quality of organic meets or exceeds that of conventionally grown cotton. Continued work on contamination issues as well as development of high quality seed is needed in many regions.
- **Include the Externalities in price**
 - Conventional economics excludes externalities, so obscuring the benefits of organic approaches. The development of a more robust Environmental Profit and Loss and other evidence-based methods is needed to rebalance the economic system in favour of organic.
- **Consider carbon credits**
 - Conventional economic systems are paying for carbon reduction already. Improvements are needed to solidify the evidence base behind organic's carbon reduction to make it qualify for carbon credit payments.

PEOPLE AND MOTIVATION

- **Leadership is needed at all levels**
 - It is accepted that senior-level support is a strong driver of organic programmes in brands and retailers. Our interviews make it clear that top-down support is essential but is not enough to guarantee success. Leadership from 'champions' and buy-in is needed at all levels. TE can foster peer support networks at numerous levels to assist this as has been the case with the Round Table.

- **Buyers and designers must be converted and see the benefit**
 - Buyers and even before them, the designers, are the most significant gatekeeper in the supply chain, and successful organisations recruit them to the cause by changing their decision & reward criteria to include the benefits that organic brings.
- **Employee engagement is boosted by organic**
 - People want to work for a company that shares their values. Our interviewees reported higher levels of staff motivation when programmes were successful – field visits were especially effective in this.
- **Consumer buy-in needs persistence**
 - Consumers are difficult to convert but when they do understand the benefits are great. We need to share best practice marketing and communications, while recognising some consumer make a passive choice.
- **One size does not fit all**
 - There are a number of ways to operate effectively with your supply chain. Further, motivations and approaches for luxury brands might be different to those for the mainstream clothing or home furnishing. In common, is the need for the right information and support to build the best business model for your operations.

MAKING IT HAPPEN [and Proposed Next Steps]

Interviewees mentioned a number of factors that had helped to catalyse action.

- **Brands need an enabler and a platform for collaboration**
 - Most successes were assisted by an enabler, making the right introductions and helping with planning, sourcing and a myriad of other activities.
- **Availability of supply is a worry**
 - Discuss and develop the feasibility of creating a “Demand Alliance” proposed above would marry supply with forecast demand and greatly alleviate this concern.
- **Numbers, science, benefits need to be proven**
 - In the debate about which approach offers the best benefits, organic has historically punched well below its weight. Additional research needs to be conducted on an ongoing basis. TE would continue to champion organic and its benefits, using sound, peer-reviewed science and reliable data.
- **Textile Exchange is a well-respected partner**
 - Many interviewees mentioned Textile Exchange as an essential partner, so it is the logical host for the new organisation and its functions.

FUNDING IMPLICATIONS

There is a clear need for a central co-ordinating body to make the Group Initiatives work, and to act as promoter and knowledge bank for the Solo Initiatives. Funding should be sought on the basis that this new organisation is needed to play a crucial role in scaling up organic cotton to its next phase. It will have a significant multiplier effect: one dollar spent in encouragement and co-ordination will trigger many dollars spent in the organic cotton supply chain, with all of the environmental, social and economic benefits that brings.

Although we may describe it as a new organisation, these functions are of course hosted by Textile Exchange, which has all the stakeholder links and admin mechanisms to bring this to fruition quickly and efficiently. The idea is that TE provides a platform and the necessary support for pre-competitive collaboration, to strengthen individual agendas, and find solutions together to drive transformational change. A risky if not impossible endeavour if carried out alone.

Simon Cooper

Alison Ward

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