



Textile Exchange Organic Cotton Round Table

Briefing 2

Briefing Document: Business Models

The term business model is very wide but for the purposes of the Round Table refers to the interaction between all cotton supply chain partners, including the financial transactions which drive the procurement of organic fibre, and the inclusion of consumers as stakeholders.

What are the challenges?

The over-riding mismatch is that the supply of organic cotton is decreasing yet brands and retailers are projecting a growth in their consumption of organic cotton. This future market 'demand' is not being clearly communicated to the farmers or incentivized through trade contracts or agreements.

Specific challenges are evident at all stages of the supply chain.

Farmers

- Reducing premiums being paid to organic farmers. For example, in India, premiums ten years ago were 20%, however today they can be as low as 1%.
- Farmers becoming de-motivated by the organic farming system as not benefitting from fair/premium prices that accounts for their sustainable production.
- No commitment in advance from other supply chain actors to purchase their fibre.
- Internal Control Systems (ICS), documentation and extension services have been reduced partly due to decreasing prices.

Supply Chain Partners

- Increasing costs of processing and certification per MT of lint due to reduced volumes.
- No contracts/commitments from retailers/brands to purchase garments. This impacts the whole supply chain.

Brands and Retailers

- Often paying a higher price for organic garments/products but not certain that farmers have benefitted.
- Concerned about long term security of organic cotton supply.
- Questioning the need to pay a higher price for organic cotton.
- Difficulties in communicating the benefit of organic cotton to customers, and hence using consumer purchasing choice as driver for market development.

How can we overcome these challenges? Thought starters

- Putting farmers at the centre of the organic cotton sourcing strategy e.g. Fairtrade model.
- Internalisation of the cost of sustainable production within the market and long term financial sustainability.
- Implement partnership solutions from farm to retail that include forward contracting.
- Engaging in and contributing to improving business security for all.
- Work with dedicated supply chain partners to improve transparency of pricing to farm-level.