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A Case Study: Building long term partnerships for a sustainable organic cotton supply chain

Introduction

Compared with conventional cotton, organic cotton production is more beneficial to both the environment and farming communities. Organic cotton uses 91% less water and 62% less energy¹ and the use of chemicals in pesticides is completely prohibited. This results in a production system that can help improve biodiversity and the health and safety of farming communities. In recognition of these benefits and others, global Luxury group Kering has made a commitment to use 100% organic cotton by 2025.

Kering is not alone in recognising the value of organic cotton. Several brands, such as SuperDry and Nike, include organic cotton in their sustainable sourcing commitments. Consumer demand is building, with global sales of organic cotton products reaching an estimated \$15.76 billion in 2015². To respond to this momentum, it is imperative to build resilient organic cotton supply chains. As one of its organic cotton initiatives, Kering is working with CottonConnect on a pilot project where all supply chain partners are collaborating to create a robust supply network, in an effort to secure a traceable and reliable organic cotton supply for its brands.

CottonConnect is a social enterprise with a clear mission to transform the cotton industry for good and Kering has been working with the organization since 2015. CottonConnect does this by connecting brands and retailers to farmers to create a transparent supply chain, training farmers in agro-economic practices, and supporting the enhancement of farmer livelihoods and strong farming communities. To date, it has created economic opportunities for more than 375,000 cotton farmer families in India, China, Pakistan and Peru, and impacted over 1.8 million livelihoods.

This case study is an exploration of the learnings from a journey to more sustainable, traceable organic cotton. It is intended to be a useful resource for companies seeking to bring supply chain partners together and build connected supply chains.

A commitment to sustainable sourcing of raw materials

Kering's 2025 Sustainability Strategy, "Crafting Tomorrow's Luxury", outlines its ambition to set the standards for sustainable luxury by reducing its environmental impact, preserving raw materials, ensuring animal welfare, supporting suppliers, and creating new innovative business models, amongst other goals. Underlining the strategy is an emphasis on being sustainable right from the start in the supply chains, with a focus on sustainable sourcing and the traceability of raw materials, as well as lowering Kering's brands' impact which is measured through Kering's Environmental Profit and Loss (EP&L) accounting.

In January 2018, Kering openly shared its sustainability principles, called the Kering Standards for Raw Materials and Manufacturing Processes. These industry-leading standards are intended to operationalise Kering's sustainability strategy, enabling the Group and its suppliers to achieve the

targets laid out within the 2025 roadmap. Its desire for cotton sourcing is to have traceability back to the source, to enhance livelihoods in cotton growing communities and ensure best practices for farmers and supply chain workers. Within the Cotton Standard is the goal to use 100% organic cotton by 2025.

Kering is also supporting multi-stakeholder initiatives and other organisations to source cotton more sustainably. In May 2017, Kering joined twelve of the world's most renowned clothing and textile companies to sign up to the Prince of Wales' International Sustainability Unit's Sustainable Cotton Communiqué, pledging to use 100% sustainable cotton by 2025. The Communiqué is a call to action for other companies to make similar pledges. Also, in November 2017, Kering and Textile Exchange published two comprehensive guides on the organic cotton market: *'A World Beyond Certification: A best practices guide for organic cotton trade models'* and *'Organic Cotton: A fiber classification guide'*. The purpose of these guides is to provide a blueprint for companies sourcing organic cotton and incorporating it into their supply chains. As easy-to use tools, the guides demonstrate best practices and sourcing models for a more responsible trade.

Transforming the supply chain model: From anonymity to a partnership network

The Kering and Textile Exchange report *'A World Beyond Certification – A best practices guide for organic cotton trading models'* identifies an increased need for transparency and fair distribution of profits along the organic cotton supply chain. The report attests that the practice of anonymous trade can create a disconnection between buyers and sellers. The current model of trading can create a lack of transparency in regard to what each actor in the supply chain is paid. Low commodity prices prolong unsustainable practices and can keep farmers in poverty. The report states "One solution to mitigate risk and contribute positively to the cotton industry has been to opt for certified organic cotton. The benefits of organic agriculture to the environment and human health, such as the elimination of hazardous persistent pesticides, are clear and undisputed. In addition, the principles of "fairness and care" are integral to organic and benefits such as food security, gender opportunities, and community development are often associated with organic cotton programs."

The report shows the benefits of exchanging anonymity in supply chains for close relationships where everybody benefits. Whereas in the traditional market models, each actor in the supply chain works on a deal-by-deal basis, the proposed new way of working is to cultivate long-term relationships. This involves three common themes: Moving away from anonymity to relationships and reward; adapting to more integrated supply networks; and reaching critical mass in new ways of doing business.

Mindful of these themes, one of the partners Kering chose to work with was CottonConnect to help in the development of a more sustainable organic cotton platform and explore new ways of working. Indeed, in a complex supply chain such as for organic cotton, Kering found that full awareness of each stage of the supply chain is needed and a whole new way of working is required to build long-term partnerships and address issues of traceability and transparency.

Developing an organic cotton program: Right partner, right product, right supplier

Kering's Sustainable Sourcing Specialist, Christine Goulay, who has been leading Kering's work with CottonConnect, talks about the process of developing a sustainable supply chain program, stating: "When trying to develop more robust supply chains, it's important to find the right partner on the ground for the right product and to choose the right suppliers. When these elements are aligned, brands are able to build supply chains that function more as partnership networks than traditional top-down, transactions."

For one of Kering's projects around organic cotton, the elements necessary to make it work include:

- **Right Partner:** One of the key reasons Kering chose CottonConnect as its field partner is because it is a social enterprise, delivering change through market-based mechanisms. Moreover, it has a strong team in India devising and implementing agricultural training for cotton farmers and is able to offer a holistic programme with a livelihoods component and gender programme focusing on women's rights and life skills.
- **Right Product:** The right products to choose for this project were T-shirts for Volcom, a modern lifestyle brand in the Kering Group. Originally Kering started a project with CottonConnect using extra-long staple cotton, as the highest quality cotton to integrate into luxury products. However, on further examination, a better fit for this project was medium staple cotton for Volcom T-shirts, as the demand for these products is more predictable. One of Volcom's main sustainability priorities is to increase the amount of organic cotton being used in its products so that the mix of organic to conventional is at least 20/80.
- **Right Supplier:** Christine Goulay explained: "There is only so much risk you can add to the supply chain at once, so it was important to find a trusted supplier for this project. Volcom prides itself on the strong relationships it builds with its manufacturing partners. Having worked with the same supplier for many seasons, developing trust and mutually benefitting agreements, there was little resistance when they requested that the supplier try taking cotton fibre from a new source."

Using this careful selection of partner, product and supplier, Volcom's "Farm to Yarn" initiative was created. This particular project is supported by Kering's Organic Cotton Platform (OCP), which aims to increase the amount of organic cotton being used in the brands' supply chains. Brands submit applications to the OCP to receive financial subsidies from the Kering Group that go toward specific organic cotton projects to increase their organic cotton usage. Volcom's application in 2017 was to help sponsor this farm to yarn initiative.

Big Tony Alvarez, Global VP, Supply Chain/Compliance, Volcom said: "When Kering approached us to be part of the organic cotton project, we jumped on it! Volcom has always had a passion for sustainability and responsible manufacturing and once we got a glimpse as to what Kering had already established we became very excited at the possibilities this program may hold for us in the future."

The programme itself: a holistic approach

The CottonConnect field programme with Kering and Volcom consists of three different elements:

1. The **Organic Cotton Farmer Training Programme (OCFTP)**, in its pilot year with Volcom, is focused on training 150 farmers in eight villages in Madhya Pradesh, India. The module-based training programme covers multiple aspects of agronomic interventions with a focus on good agricultural practices, organisation of farmer collectives and enhanced biodiversity. The programme components deepen the skills and knowledge of the farmers and empower them with the tools to make a more sustainable future.

Integrity of organic cotton is important, so the project includes mapping and linking the project for non-GMO seed supply. Farmers are encouraged to produce their own bio inputs instead of chemical inputs. The training includes demonstrations in the fields on how to create manure with vermi pits and compost pits, how to use neem-based pesticide, yellow sticky traps and pheromone traps for pest control and how to enhance biodiversity by intercropping, border cropping and trap cropping.

The results of the OCFTP are measured year on year. Kering expects the results to be comparable with a project it ran with CottonConnect in Maharashtra, India in 2015-2017. By year two of the project, the yield of project farmers had been improved by 16.8%, their input costs reduced by 56.6% compared with conventional farmers, their profits increased by 115.6% compared with conventional farmers and over 80% of project farmers adopted at least six sustainability practices.

2. The **Gender Programme: Women's Rights and Life Skills** is a programme training 50 women in two villages also in Madhya Pradesh, India. These are women from the community taking part in the Organic Cotton Farmer Training Programme so that the benefits of both trainings can create positive effects in the community as a whole. Module 1 covers health, anemia and nutrition; handwashing; harmful effects of open defecation; and safe handling of drinking water. Module 2 covers awareness about equal wages; awareness of child labour; health and safety in gender issues.

Impact reports show that these trainings result in increased awareness and positive behavioural changes to health and hygiene. After the training, there was 100% awareness of physical health matters (compared with 15% baseline), 95% awareness of anemia (compared with 19% baseline), 67% sanitary napkin usage (compared with 23% baseline) and 100% awareness of handwashing with soap (compared with 88% baseline).

3. A **Farmer Business School** was added toward the end of the CottonConnect programme, in the last year. The 100 farmers in Maharashtra taking part in the OCFTP, received the Farmer Business School training as an exit from the project. This programme has been designed to increase the knowledge of farmers about basic accountancy and finances. It involves three training modules which help the farmers to develop their understanding about income versus

expenditure, profit versus loss and ultimately, enhancing the farmer's attitude to see their farming as a business.

The farmers in Farmer Business School also benefitted from three months' Winter Crop Training as many cotton farmers grow winter crops to supplement their income. The training was given in two modules, with Module 1 covering soil, seed, weed, crop and nutrient management and pest control, and Module 2 educating on irrigation, inputs, storage and natural pest control. The training resulted in increased yields and incomes for the farmers. Overall 29% more income and 4% more yield per acre was achieved year on year.

Traceability and access to the whole organic cotton supply chain: connecting the dots

A key requirement for the project was to have traceability of the organic cotton and access to the whole organic cotton supply chain.

Arvind Rewal, Regional Director South Asia, CottonConnect, agreed: "Traceability is critical for the future of organic cotton. It requires a brand to be intentional about mapping its supply chain. This project with Kering is a great example of how a company is intentionally seeking traceability in a supply chain that was said to be impossible to map."

In November 2017, representatives from Kering and its sustainability team, as well as Volcom's compliance and supply chain team, visited India to meet with each link in the supply chain.

The Volcom team wanted to create a film to help people buying the T-shirts understand the farm to yarn story and be assured of its organic cotton credentials. The visit therefore included a film crew documenting processes, interviewing participants and highlighting the stories from the cotton farms and the spinning of the cotton yarns. Importantly, the trip also included a representative from Volcom's supplier so that he could understand the benefits of the CottonConnect programme on the communities producing the organic cotton.

By visiting the cotton training programmes, the team was able to understand the scope and impact of the project. A visit to the Farmer Business School in Nadarpur Village, Maharashtra included a demonstration of some of the programme activities. While there, one farmer talked of how he now keeps track of the payments he makes for inputs such as seed and natural fertilisers, and how much he is spending.

Visiting the Gender Programme in Anjanpura Village, Madhya Pradesh helped to identify the positive changes for the women participants and their communities, such as improved awareness of health and hygiene.

A visit to the Organic Cotton Farmer Training Programme enabled the Kering and Volcom teams to meet the farmers and workers producing the cotton fibre, which goes into the Volcom supply chain. The teams were introduced to organic farming methods such as the making of natural fertilisers from manure and trapping pests through the use of sticky paper. Seeing the programme in action helped them to better understand the training and how it works, farmer's selection in the programme and, most importantly, the benefits of the training to the farmers and their families.

The teams then followed the route of the cotton fibre to the ginner and saw bales of cotton move through the ginning process to be prepared for shipment out to spinners. At the spinner, they saw the equipment and process used to spin the cotton into yarn for fabric knitting.

All partner supply chain meeting: a pivotal moment

The visit included a rare occurrence in today's world: an all supply chain partner meeting. Usually, there would be separate meetings and commercial negotiations between each actor in the supply chain. However, in a deliberate attempt to foster transparency and create a long-term working relationship, Kering, Volcom and CottonConnect arranged a meeting between all the supply chain partners at once. This included the farmer project operator who also handles ginning, the yarn spinner, Volcom's sourcing agent, as well as the supplier partner responsible for the fabric and garment manufacturing, Kering's sustainability team, Volcom's supply chain team and CottonConnect.

Christine Goulay recalled: "Currently, it is rare to have all the actors in the supply chain in the same room. The global supply chain has become increasingly anonymous and opaque over time. This meeting was an effort to raise the curtain, so to speak, and to communicate directly with every member of the supply chain in the room. This new way of working requires some changes to the traditional trading model, and there was definitely a feeling that we were doing something differently."

A key aim of the CottonConnect project is to ensure that farmers receive a financial compensation for their organic cotton efforts, a model was needed to protect the price at which the farmers sold their cotton fibre. The team came up with a sliding scale model: farmers would receive an agreed price per kilo, meaning if the market price fluctuated below that agreed price, the agreed price would still be paid. If the market price increased beyond the agreed price, the higher market price would be paid. This agreed price was set at approximately a 10% premium over the government set price for conventional cotton.

This change in doing business, connecting different functions and players who usually are disconnected, does present a number of challenges. For example, who is leading the project? Price negotiations are usually carried out by the brand team, but the field project here was driven by the sustainability team, so who is in charge? The meeting required greater flexibility and clearer definition of roles, with collaboration among the company's in-house and external teams. In this case, the project was incubated with the sustainability team, and over the next couple of years, it will be transitioned to lie entirely within the Volcom brand team.

Another challenge was the need for resilience and good faith to keep the process on track. This meeting created a disruption to today's "business as usual" anonymous supply chain model. Trying to change mind-sets from a quick win or transactional model towards a long-term partnership model proved challenging. Sometimes even when a deal has been struck, further attention and reassurances may be needed to keep the partnership together.

Ruchita Chhabra, Customer Development Director, CottonConnect, who was present at the meeting said: “This project shows the possibilities when the brand, supply chain partners and farmers are on-board together, investing collective efforts to bring long-term impact to the supply chain. It is important to understand the practical challenges, and while we cannot expect overnight changes, initiatives like this provide an opportunity to identify gaps on the ground and to work towards closing them.”

Big Tony Alvarez agreed: “During my travels with Christine and the CottonConnect team in India in November, I was able to really see the validity of the program and what Volcom’s involvement could bring for the Farmer Business School and the Gender Training School. After meeting with all the players and seeing the benefits of an expanded commitment to traceable organic cotton it was clear that Volcom would move forward with a partnership arrangement for the long term with the hope to expand on the great work already achieved. It fits into our beliefs and principles for responsible manufacturing and aligns with our DNA as a brand. We are beyond stoked to be a part of it.”

Exploring the realities of an end-to-end supply chain

Kering plans to continue the project next year. This is the start of a true farm to yarn model and as such, presents both opportunities and challenges. Importantly, it offers full traceability of the organic cotton supply chain, provides a market signal to suppliers, and increases possible direct organic cotton uptake by a brand. The model is promising as long as it can be scaled, which is the next step in the process. A significant outcome was to create a pricing model that would ensure a price for the organic cotton farmers. For it to work, all players need to support the long-term partnership and not jeopardise it by short-term interests.

To truly build a resilient supply chain, parties need to go beyond the agronomic production of the cotton crop to the deeper issue of increasing farmer resilience in all senses of the word. Introducing new farming and financial skills for farmers as well as recognising and educating women have benefits for the whole community. This is why Kering’s programmes with CottonConnect have included Women’s Rights and Life Skills, the Farmer Business School and the Winter Crop training. This holistic approach promotes the resilience of the people in the community, not just the sustainability of the cotton crop. From here, giving attention to each link in the supply chain ensures a stronger end-to-end model.

The project also illustrates how an organisation can contribute to the Sustainable Development Goals (SDGs). The partnership approach between a brand, social enterprise and supply chain partners, built on a shared vision, is an example of delivering SDG 17 – Partnerships for the Goals. The development of a transparent cotton supply chain which enhances livelihoods can in fact contribute to several goals: SDG1 No Poverty; SDG5 Gender Equality; SDG8 Decent Work and Economic Growth; SDG12 Responsible Consumption and Production; and SDG13 Climate Action.



Alison Ward, CEO, CottonConnect concludes: “The tide is turning on traditional supply chains, with demands for greater transparency generating a change from transactional relationships to transformational partnerships. The progressive approach taken by Kering demonstrates how you can start to incorporate the hallmarks of a transformational relationship, such as sharing risk and having an open dialogue, into a transactional supply chain.”

Christine Goulay adds: “Kering is excited to have embarked on this journey with CottonConnect and Volcom. It is a small pilot programme that we hope will grow over the years. We are proud to be part of the movement toward building more robust supply chains in the organic cotton sector and want to share our learnings from our efforts to support other companies who are on similar journeys. As with most movements, we will move faster together.”

^{1,2} *Textile Exchange, Quick Guide to Organic Cotton 2017*







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