

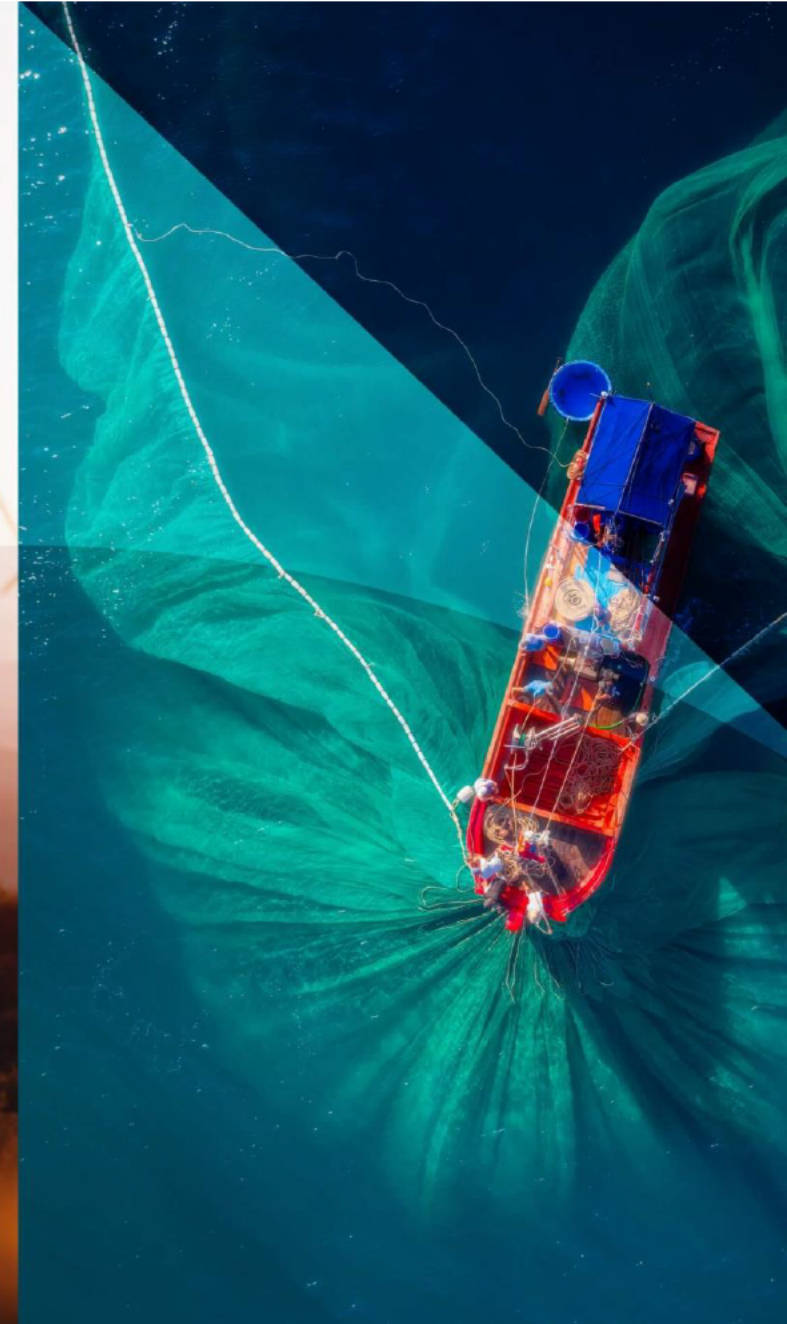
September 2024

Sustainable Cotton for Fashion - VoC

Final Report



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Together with our clients, we shape markets, define the technologies of tomorrow and futureproof businesses.

An abstract background graphic consisting of overlapping, wavy, and curved lines in shades of blue, teal, and green, creating a sense of motion and depth.

Environment, Health & Safety
ESG & Sustainability
Net Zero & Climate Risk
Operational Excellence
Risk Management
Smart Buildings

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Project Overview

Project Background



Project Introduction

- Olam Agri is a leading agribusiness company focused on the global supply chain of food and industrial raw materials. The company operates in various sectors and provides comprehensive solutions from sourcing and processing to logistics and distribution. Focused on transforming food, feed and fibre for a more sustainable future, it aims at creating value for customers, enable farming communities to prosper sustainably and strive for a food-secure future.
- Headquartered in Singapore, Terrascope is a carbon accounting firm that helps businesses measure, manage, and reduce their carbon footprint. Using advanced data analytics, Terrascope provides detailed carbon assessments and offers strategies for sustainability. The firm assists companies with carbon reporting and compliance, supporting their efforts to achieve environmental goals and transition to a low-carbon economy.
- Olam Agri, in collaboration with Terrascope, aims to offer an end-to-end solution for measuring and reducing the carbon footprint of apparel and fashion brands. This initiative involves shifting from regular cotton to low carbon cotton. To support this effort, Verdantix have undertaken 30 interviews – split across 25 quantitative interviews and 5 qualitative interviews – with Sustainability and Procurement professionals across North America and Europe to gather insights into the importance of sustainable cotton, key purchasing criteria, budgets and related goals.
- Across the interviews, we have prioritised speaking to firms identified by Olam Agri and Terrascope as having a strong sustainability focus – these firms are categorised across Tiers 1, 2 and 3 in line with Olam Agri / Terrascope designation.

Project Approach



Project Approach



We have interviewed a total of 30 respondents across sectors to gather insights into the appetites and priorities of buyers

Firms Interviewed

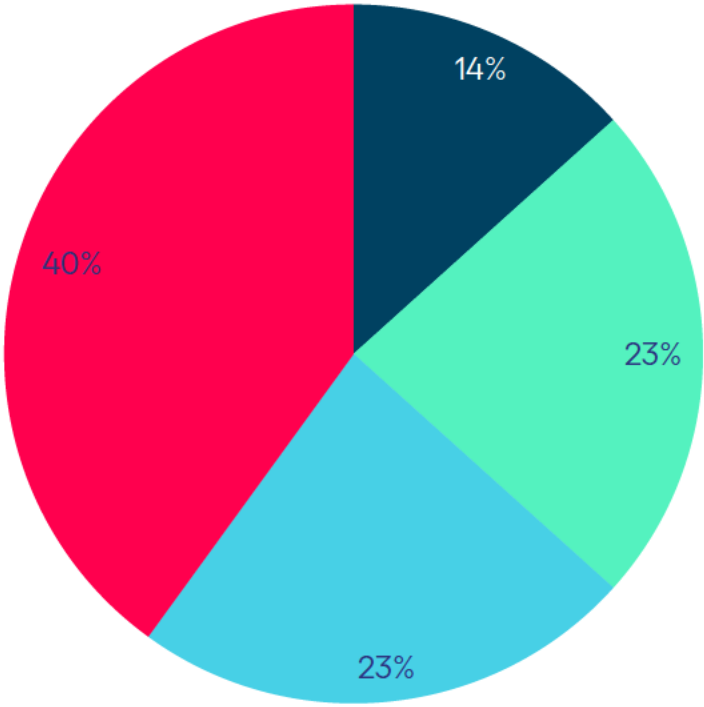
- Adidas*
- American Eagle Outfitters Inc.
- Boohoo Group PLC*
- Boohoo Group PLC
- Burberry
- Carhartt
- Chanel
- Christian Dior Couture
- Frasers Group
- Fruit of the Loom
- Gap Inc.
- G-Star RAW
- Hanesbrands Inc.
- HUGO BOSS
- Inditex
- Louis Vuitton
- Madewell
- Next
- Patagonia
- Primark
- PVH Corp.
- Ralph Lauren
- Reformation*
- Superdry*
- Tapestry
- The TJX Companies, Inc.
- Under Armour
- Urban Outfitters
- Victoria's Secret*
- Zadig&Voltaire

Job Titles Interviewed

- Director of Sourcing
- Director of Sourcing and Production
- Director of Sustainability
- Director sustainability Brand Strategy
- Director; Global Procurement
- Global Head of Environmental Sustainability
- Global Sustainability Officer - Director of Global Sustainability & EHS
- Group Head of Sustainability & CR
- Head of Procurement
- Head of Procurement
- Head of Sourcing, Ethical & Sustainability
- Head Of Sustainability
- Head of Sustainability
- Head of Sustainability
- Head of Sustainability
- Senior Director of Sustainability
- Senior Manager Environmental Sustainability
- Senior Manager, Sustainability & ESG
- Senior Sourcing Manager
- Senior Supply Chain Accountant
- Senior Sustainability Manager
- Senior Sustainability Manager
- Senior Vice President Sustainability
- Sourcing Director
- Sustainability Director
- SVP/Head of Sustainability and Product Innovation
- Vice President - Supply Chain, Logistics, After Sales & Sustainability
- Vice President Procurement & Business Services
- Vice President Sustainability
- VP, Global Sourcing & Procurement

We have interviewed firms across Olam-defined tiers, headquartered across North America and Europe

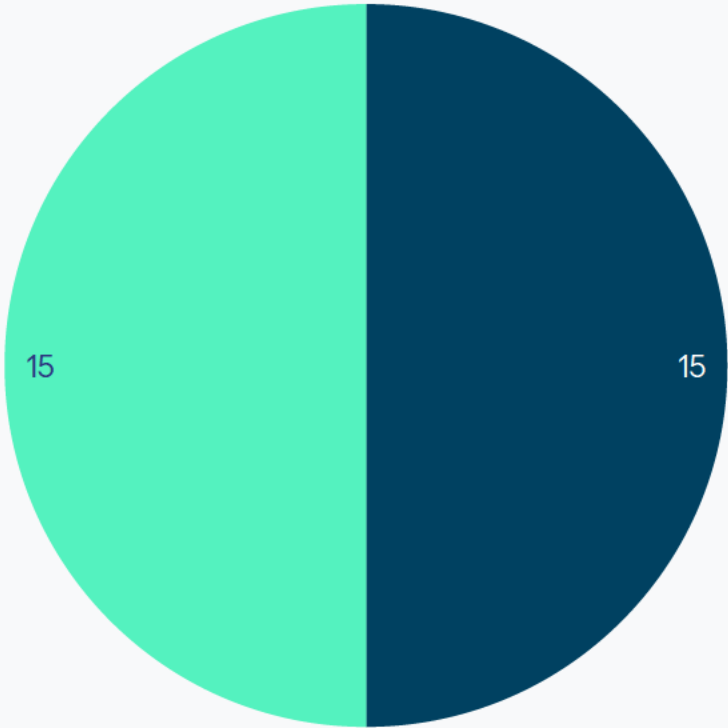
Interviews by Tier



■ Tier 1 ■ Tier 2 ■ Tier 3 ■ Other

n=30

Headquarters Location



■ North America ■ Europe

n=30

List of firms by tier

Tier 1

- American Eagle Outfitters Inc.
- Gap Inc.
- Inditex
- PVH Corp.

Tier 2

- adidas
- Fruit of the Loom
- G-Star RAW
- Hanesbrands Inc.
- HUGO BOSS
 - Next
- Ralph Lauren

Tier 3

- Chanel
- Frasers Group
- Louis Vuitton
- Patagonia
- Primark
- Tapestry
- Under Armour

Other

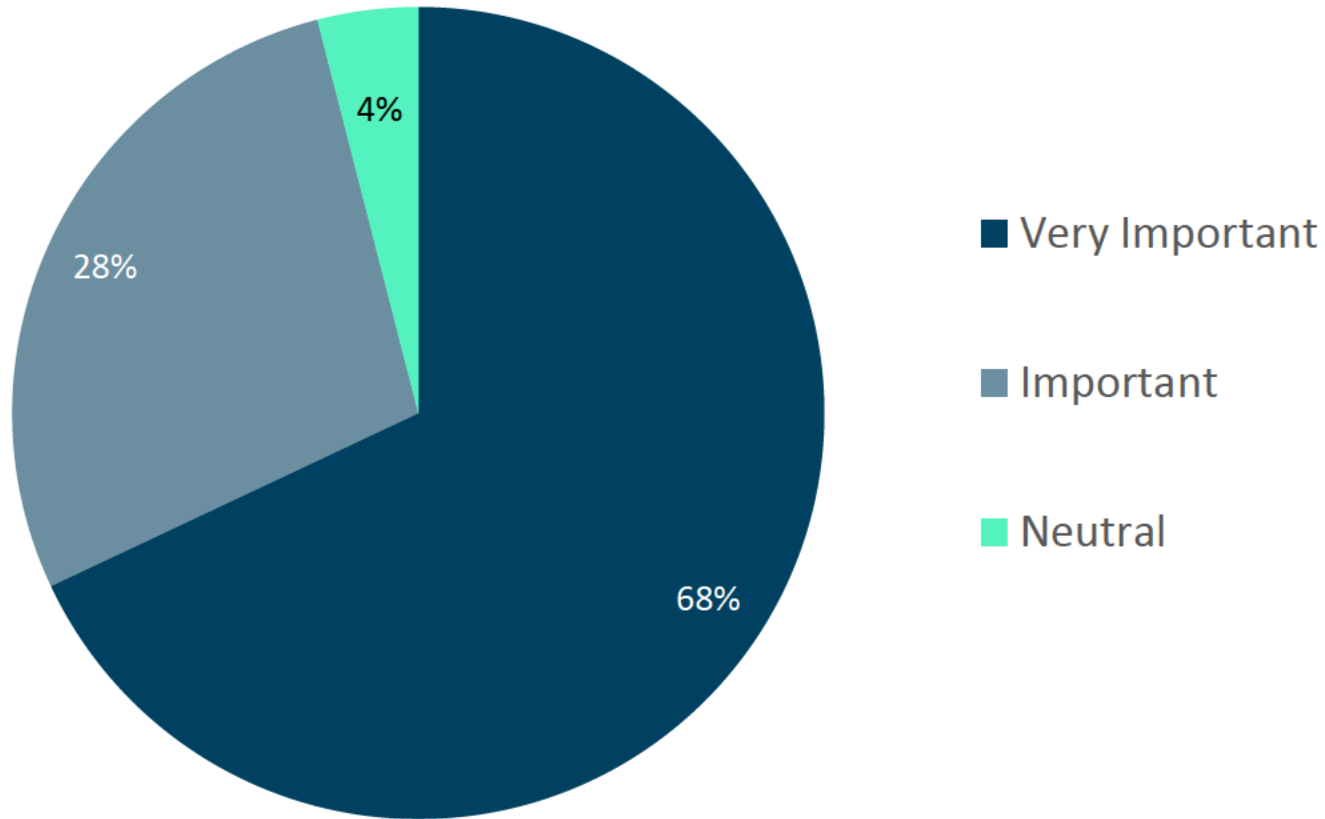
- Boohoo Group PLC (2 interviews)
- Burberry
- Carhartt
- Christian Dior Couture
 - Madewell
 - reformation
 - superdry
- The TJX Companies, Inc.
- Urban Outfitters
- victoria's secret
- Zadig&Voltaire

Voice of the Customer



Sourcing sustainable cotton is an important part of firms' sustainability goals

Question: How important is the procurement of sustainable cotton (vs regular cotton) for your organization?



Firms in the fashion and apparel industry have sustainability goals for water use, carbon emissions, labour conditions and other social and environmental impact factors. Cotton procurement touches on many of these, making sustainable cotton very important for nearly 70% of respondents. None said that is of low / no importance

"Sourcing sustainable cotton is easily one of the highest sustainability measures that we have."

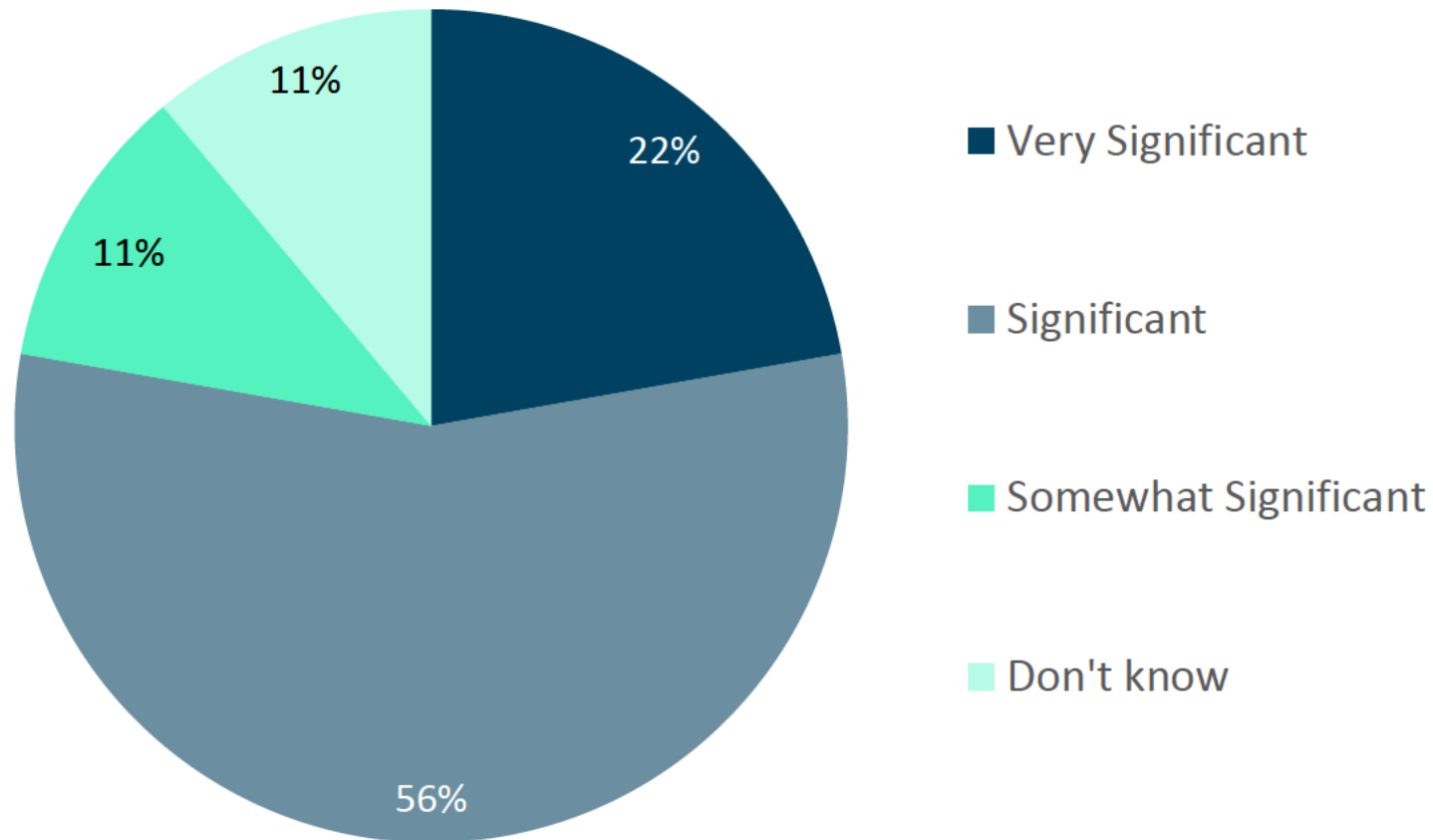
Senior Supply Chain Accountant

"Cotton was an easier win [compared to other sustainability goals] – it was measurable, specific, and gave us the capability to have an achievable goal in the short-ish term."

Vice President Procurement & Business Services

78% of fashion and apparel firms consider cotton to be a significant or very significant raw material

Question: How significant is cotton as a raw material in your business (select one response)?



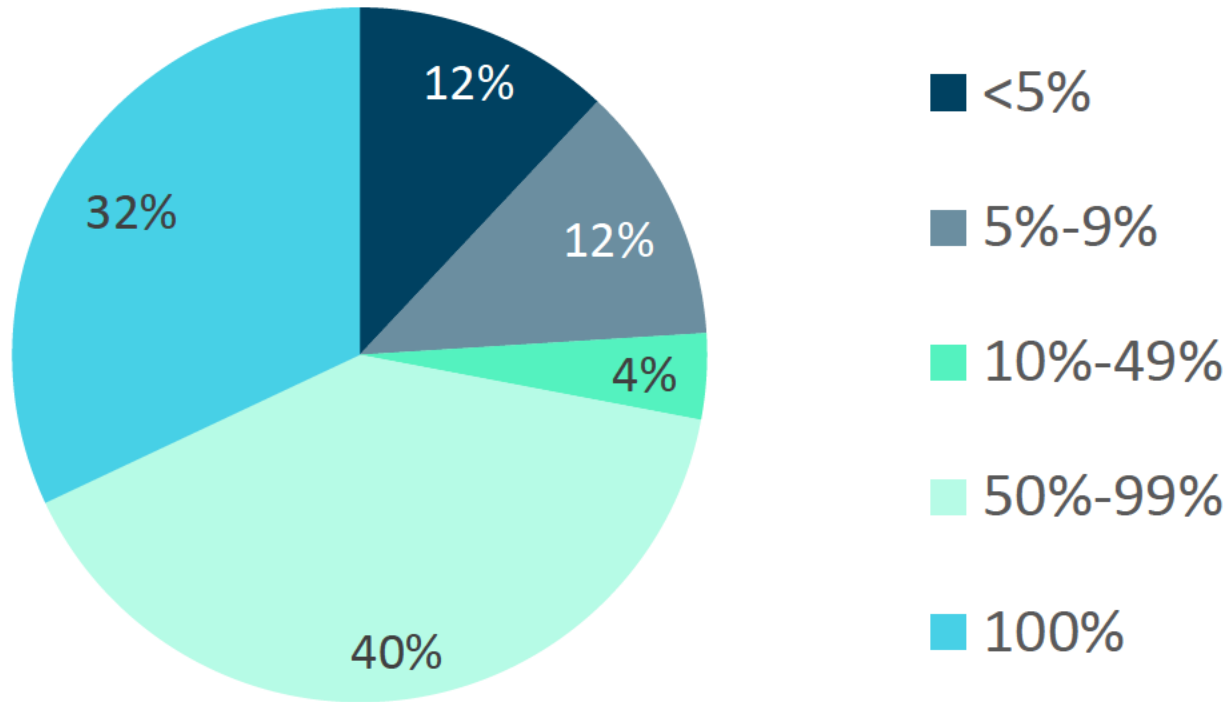
- Despite the many materials that the fashion and apparel industry must source – such as plastics, metals, and non-cotton natural and synthetic fibers – cotton is a significant or very significant input for 3 out of 4 respondents
- Except for those who answered “don’t know,” all respondents said that cotton is at least somewhat significant (other options provided were “little significance” and “not at all significant”)

“The firm that I work for is fast fashion, so cotton is a key element for the inputs of our products, and we spend a lot of time reviewing it.”

Senior Supply Chain Accountant

72% respondents procure at least half of their cotton from sustainable sources

Question: What percentage of your total cotton procurement today is classified as sustainable (select one response)?



- More than two thirds of respondents report that more than half of their cotton is sustainable – either virgin material produced sustainably or recycled
- However, results vary by firm size, with 57% from Tier 1 sourcing all their cotton sustainably. For Tier 2, none have reached 100%, but 78% source at least half of their cotton sustainably. Tier 3 shows the most variability, with 72% of respondents sourcing at least half of their cotton sustainably

“We actually don’t source any conventional [non-sustainable] cotton, and we never have as a brand.”

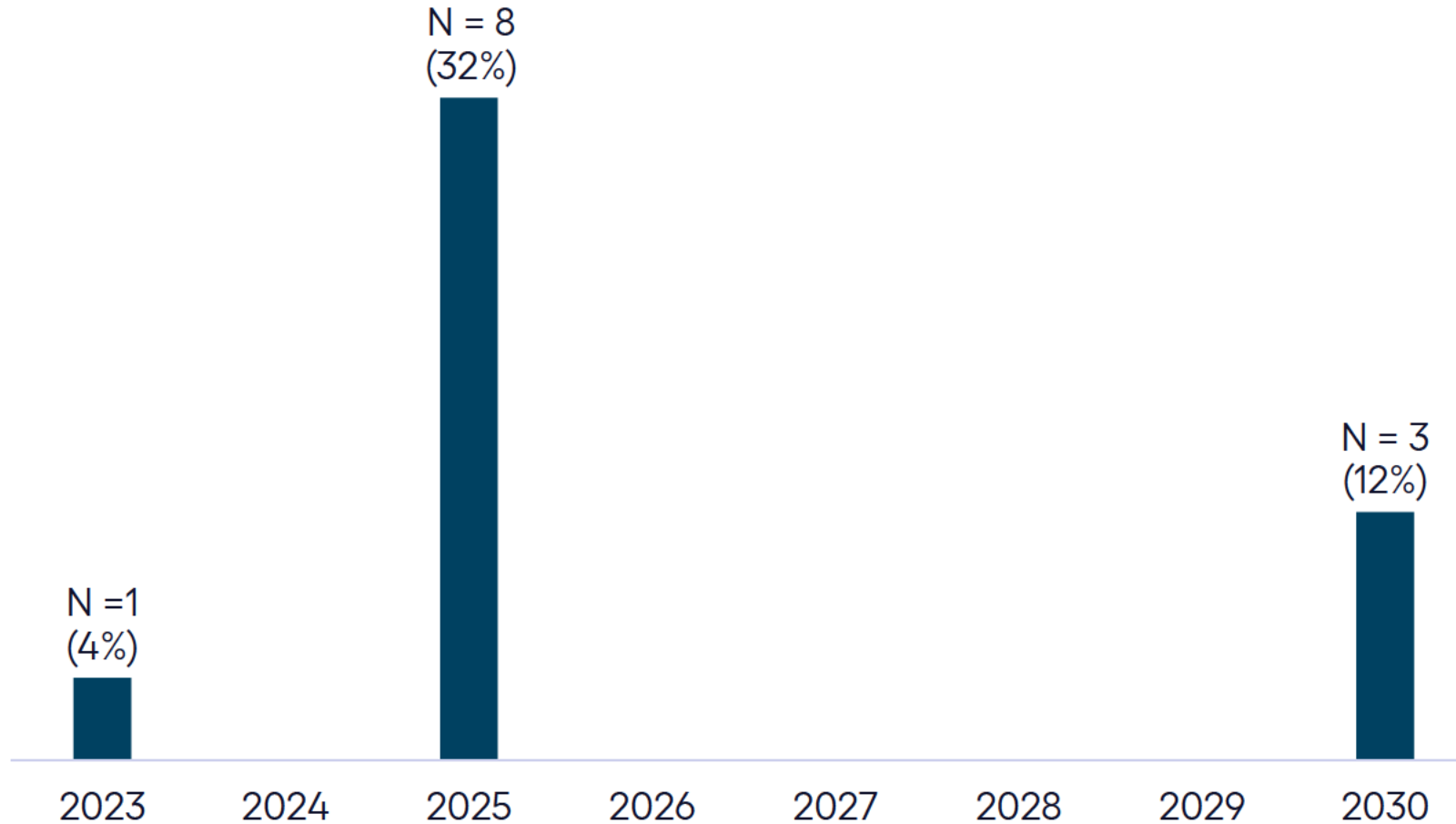
Senior Director of Sustainability

“More than half of all of the cotton – I think it’s around 63% – that we have in our clothing is sustainably sourced.”

Head of Sourcing, Ethical & Sustainability

Approximately half of respondents have time-linked quantitative goals related to the procurement of 100% sustainable cotton, with an additional 32% having already achieved this

By what year do you hope to procure 100% of cotton from sustainable sources?



N = 25
Source: Verdantix analysis for Olam Agri

- Clearly defining supply chain sustainability goals is critical for meeting overall ESG targets, particularly in industries with complex supply chains, such as the fashion and apparel industry
- Two respondents provided interim goals – one to reach 75% sustainable cotton in 2024 (and 100% by 2025), and one to reach 50% by 2025 (and 100% by 2030)

“Our target is that by next year, 100% of all pure cotton garments will be converted to low impact organic or recycled cotton.”

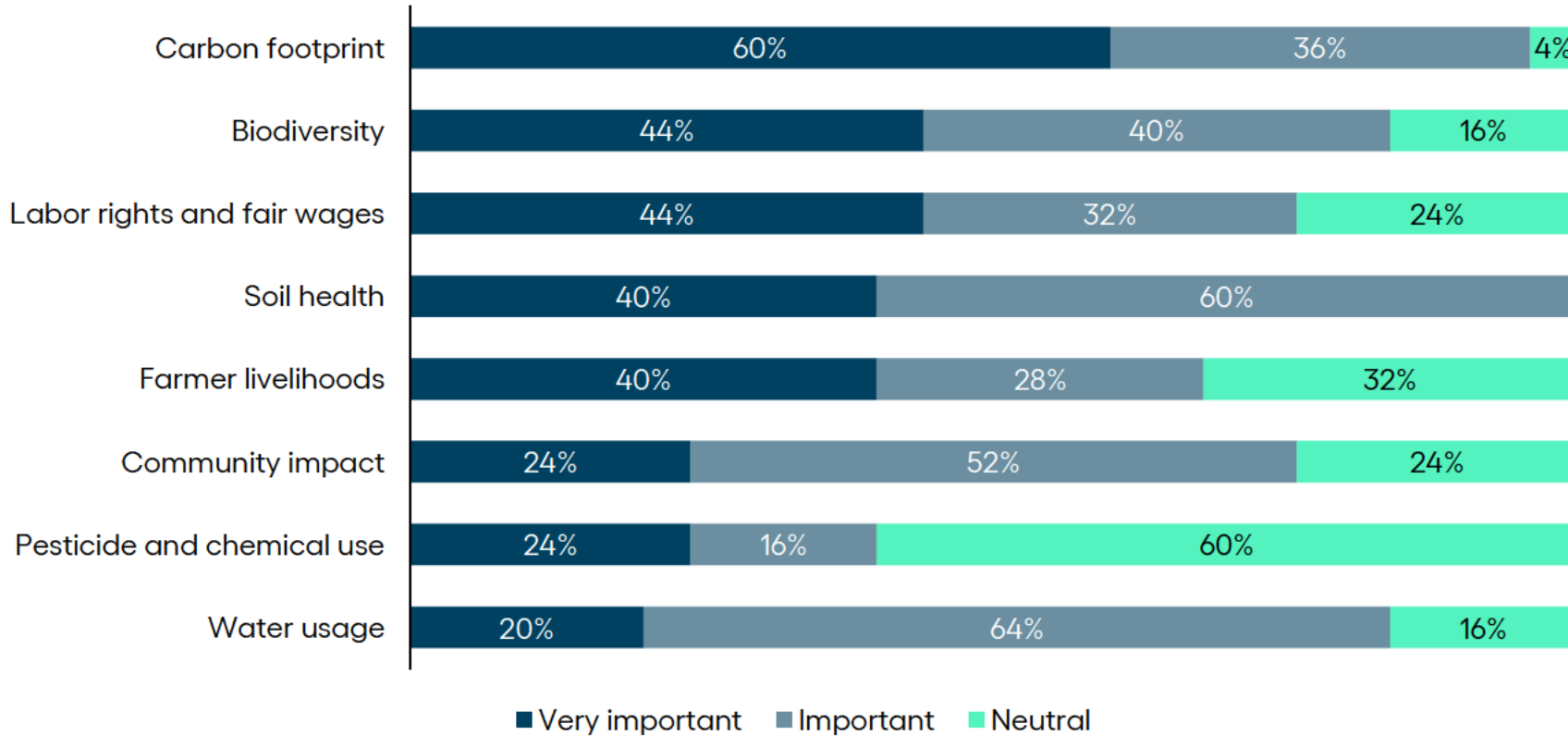
Head of Sourcing, Ethical & Sustainability

“We’re committed by next year to be 100% sustainable with cotton. It was a four-year journey to understand the implications, develop the sourcing strategy, and build strategic partnerships with production in terms of both recycled materials and domestic farmers.”

Vice President Procurement & Business Services

Survey respondents rated a wide range of factors as important or very important with respect to sustainable cotton

Question: When you think about the attributes of sustainable cotton, how do you rate the importance of the following environmental and social factors?



- Carbon footprint, which emerged as the top sustainability issue, is a large concern across many industries, as focus on net zero goals increases globally
- However, other priorities are more specific to the fashion industry. For example, labour rights, biodiversity, farmer livelihoods and soil health are most relevant in industries that depend on natural resources and manufacturing

“A lot of what we look for is soil health and water use. Transitioning from organically grown to regenerative practices is a key priority.”

Senior Director of Sustainability

“All of those things have to fall in place to be sustainable.”

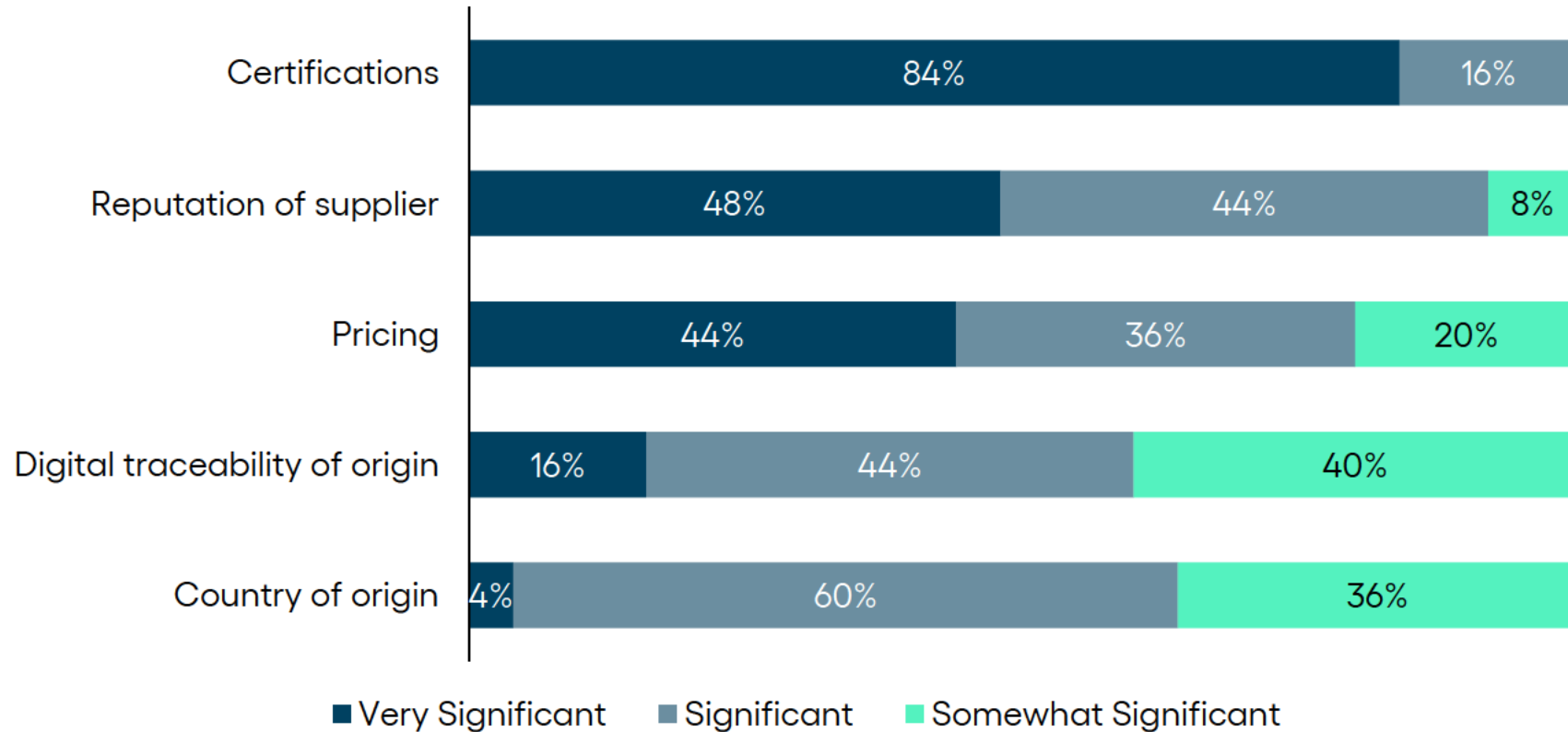
Vice President Procurement & Business Services

“Another aspect that is really critical for the industry is to make sure that money is actually going to the farmers.”

Senior Director of Sustainability

Firms rely heavily on certifications to know which suppliers are sustainable

Question: How significant are the following factors when purchasing sustainable cotton?



- Profitability is always a strong concern for firms. However, regarding sustainable cotton procurement, pricing comes in as the third most significant factor, slightly behind reputation of supplier and far behind certifications – almost twice as many respondents (84%) say certifications are very significant compared to how many say pricing is very significant (44%)
- All respondents consider all these factors to be at least somewhat significant when purchasing sustainable cotton (other options were “little significance” and “not at all significant”)

“We won’t bother working with a supplier if they don’t have the right certifications behind them and can’t show they are as good as they say.”

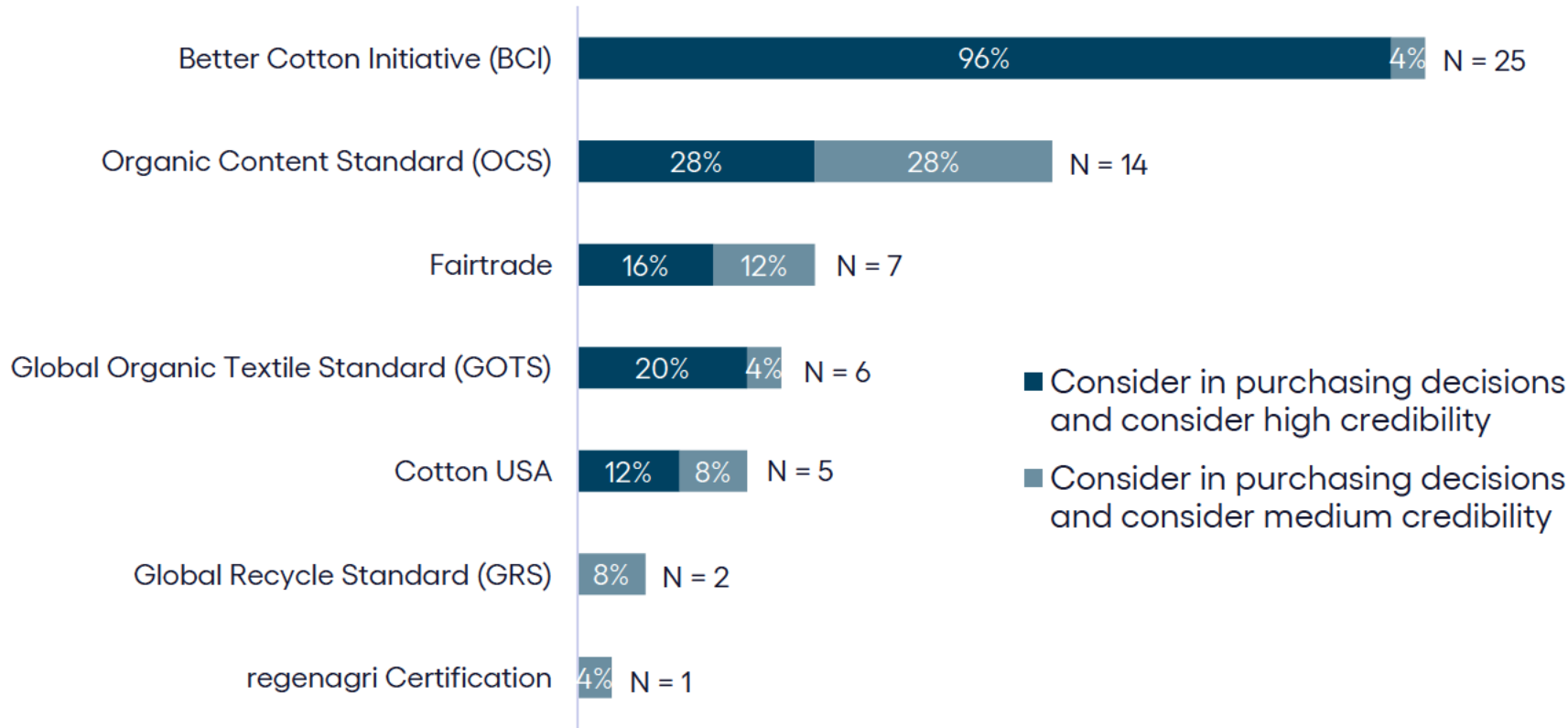
Senior Supply Chain Accountant

“We look for who can provide the service that we need, which is basically very, very good quality, very good relationships, decent prices, on time.”

Head of Sourcing, Ethical & Sustainability

BCI is the most used and trusted certification, but others are also valued despite credibility questions

Question: Which of the following certifications do you consider when purchasing sustainable cotton and how do you rate their credibility and sustainability impact?



Note: respondents were only asked to rate the credibility of certifications that they consider in their purchasing decisions

N = 25
Source: Verdantix analysis for Olam Agri

- Better Cotton Initiative is the most commonly considered certification and all except one respondent think it is highly credible. Key features of BCI are that it is a global standard, cotton-specific, and addresses environmental and social criteria – making it broadly applicable
- Respondents only use certifications that they consider to be medium or high credibility (other options were ‘low credibility’ and ‘don’t know’)
- Non of the respondents consider , OEKO-TEX, regenerative agriculture practices, CMiA or other certifications in their purchasing decisions

“Our definition of sustainable cotton is strongly related to external labeling – it’s basically the criteria that BCI and OCS provide us.”

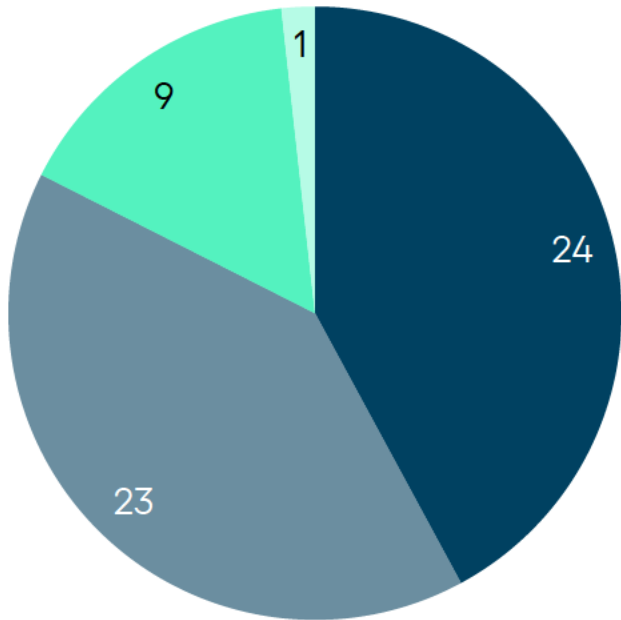
Director of Sustainability Brand Strategy

“Responsible farming is part of being sustainable. That’s why we’re focused on BCI.”

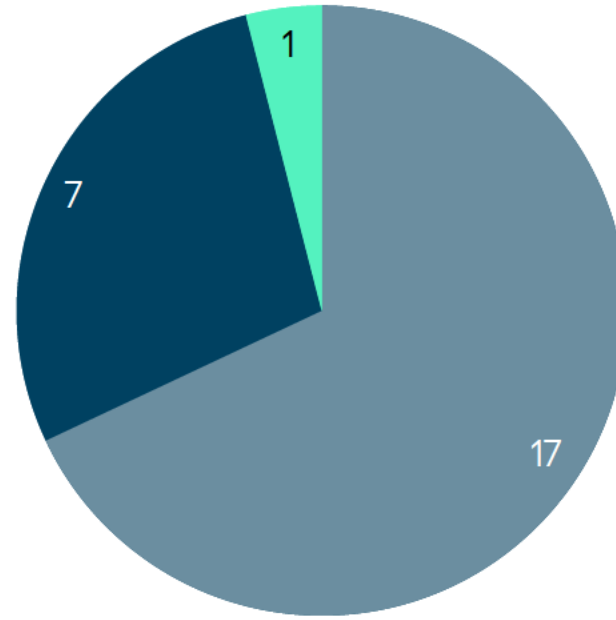
Vice President Procurement & Business Services

Many departments – primarily sustainability, procurement and finance – are involved in purchasing sustainable cotton

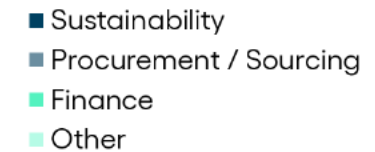
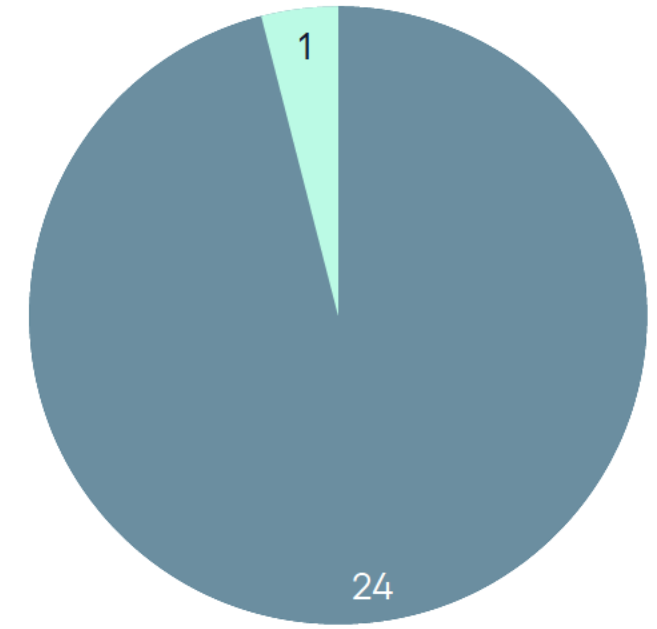
Which functions in your organization initiate recommendations as to the cotton you should be procuring? (select all that apply)



Which function is the ultimate decision-maker in determining what cotton to buy (i.e. conventional cotton vs sustainable cotton)?



Which function executes in the procurement of regular cotton?



Many departments – primarily sustainability, procurement and finance – are involved in purchasing sustainable cotton

“The regional offices are the ones that work on forecasting and they also work directly with the farm partner. Our production, planning and forecasting teams are the ones that will get us all of the figures. The sustainability team works very closely with the merchandising team, who track all of this. The design team is also involved. In the first two or three years, legal had a lot of involvement.”

Head of Sourcing, Ethical & Sustainability

“Finance, legal, supply chain, procurement: we’re all involved in this as we move from ‘let’s do this’ to ‘it’s in the store or it’s online.’”

Vice President Procurement & Business Services

“Once we know about a supplier, we do a lot of vetting. For example, I met this supplier last year and we still haven’t done business with each other because it’s not just me that has to provide that feedback.”

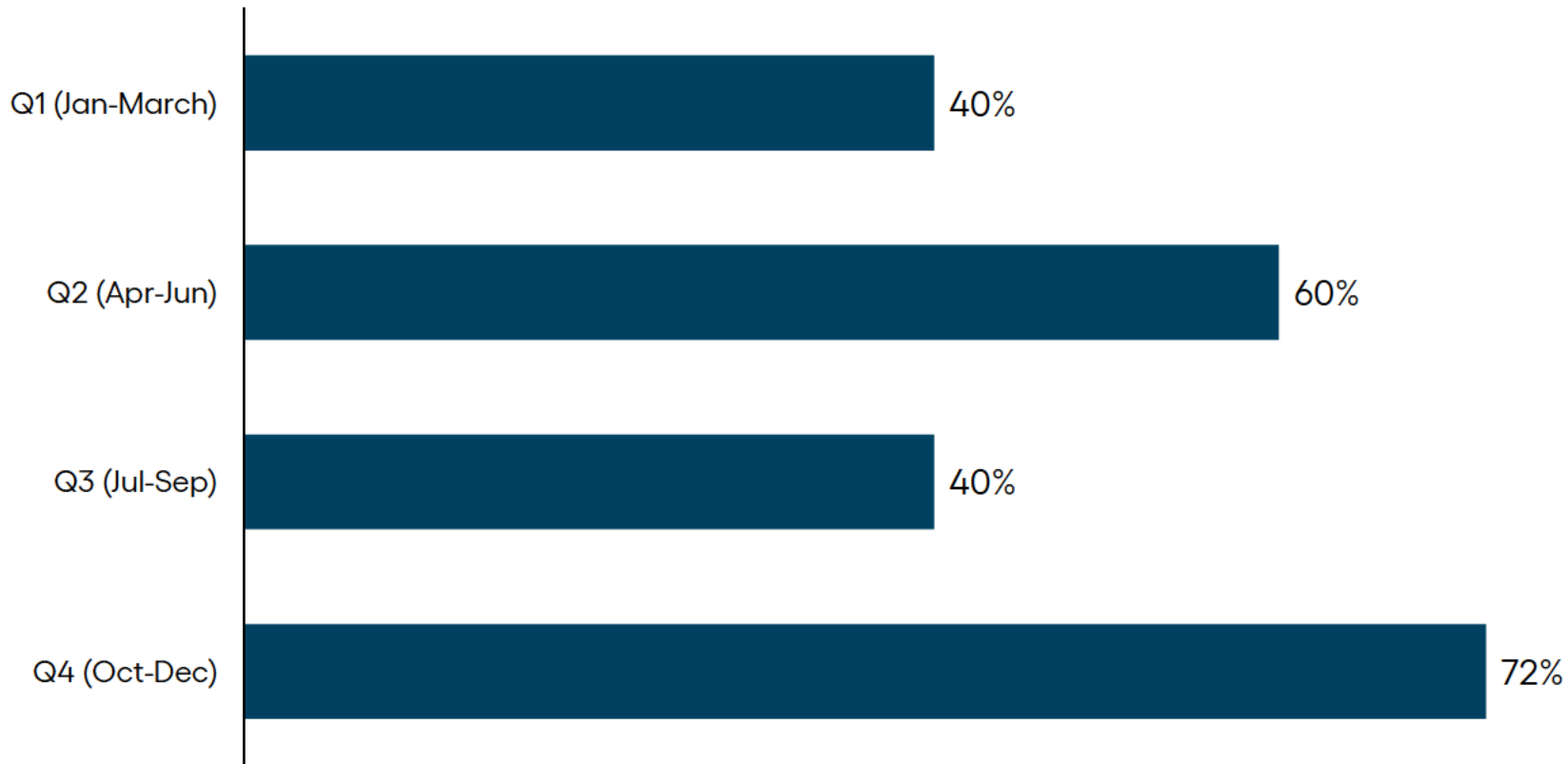
Senior Supply Chain Accountant

“The buying group lists potential suppliers of various items that we put out each season, and then we include both the procurement team to make sure that we remain financially sustainable and the sustainability team.”

Senior Supply Chain Accountant

The timing of purchasing decisions depends on when products should be available for consumers and when cotton is harvested

Question: What specific time(s) of the year are decisions taken on the purchase of sustainable cotton (select all that apply)?



- Fashion and apparel is a dynamic business – styles change constantly, consumer needs vary seasonally, and cotton can only be harvested at specific times of the year
- 10 respondents (40%) make decisions about the purchase of sustainable cotton twice per year – 3 do so in Q1 and Q3, while 7 do so in Q2 and Q4
- Of the 9 respondents that only make decisions once per year, 7 make those decisions in Q4

“You have to place orders in time for the harvest.”

Senior Director of Sustainability

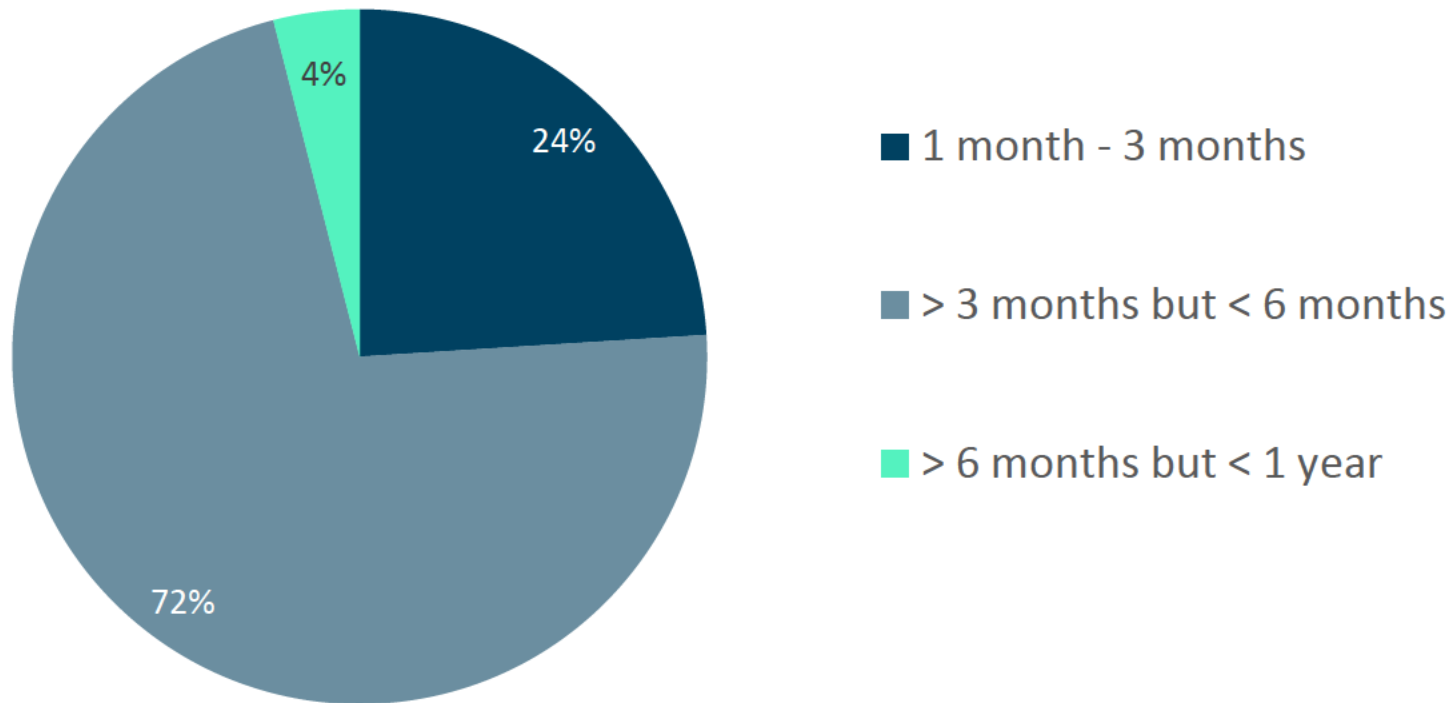
“We start buying for the autumn/winter season in January. We work out roughly the cotton required and then our implementation partner starts that pick up between January and March, and March is really when the farm partners want it to be finished.”

Head of Sourcing, Ethical & Sustainability

“We’re planning ahead, choosing suppliers and doing tests during pre-production for the next season. So right now, while we have winter clothing coming, we’re working on purchasing for our spring and summer collection.”

The procurement timeline typically lasts several months, but always under a year

Question: What is the typical internal timeline for taking procurement decisions on sustainable cotton (i.e. the time from the initial annual conversation about procuring sustainable cotton to the final decision taken on where to buy from and how much to buy)?



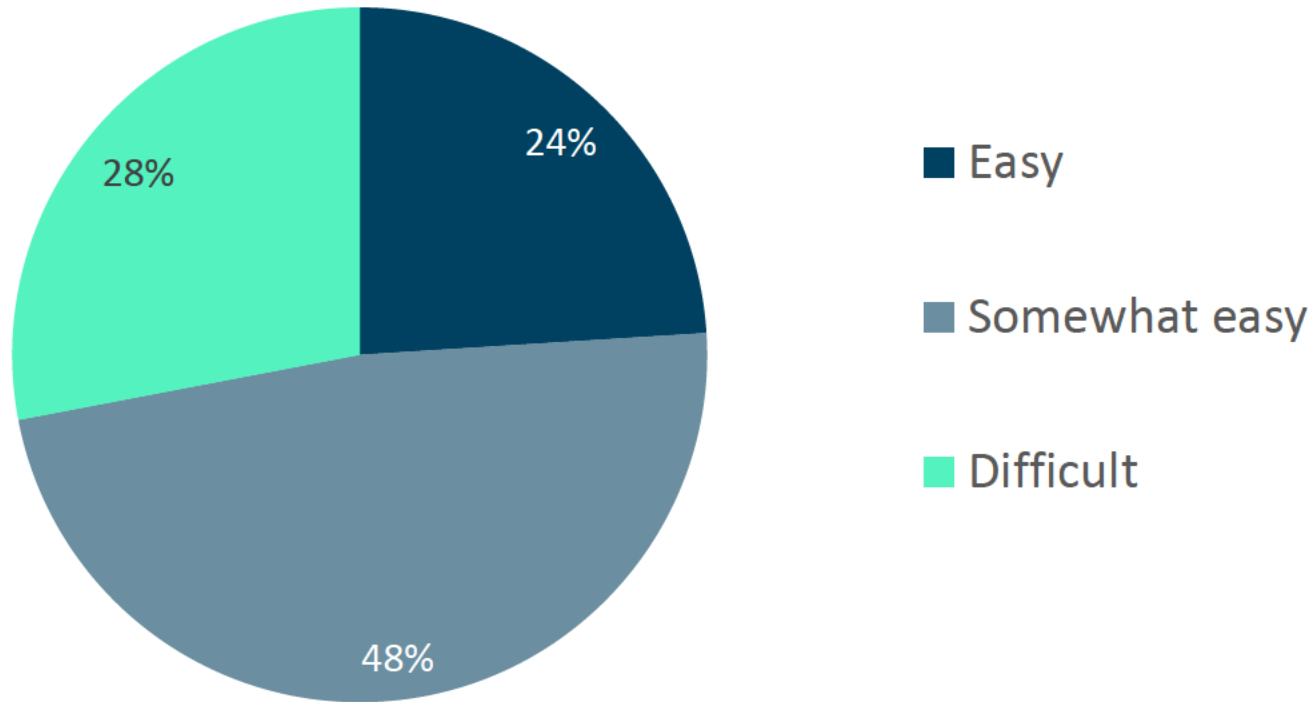
- For all respondents, the timeline for sustainable cotton procurement decisions is less than six months, with most respondents saying the timeline is more than 3 months (other options were '> 6 months but < 1 year', '1 year +', and 'don't know')
- This pace reflects the speed of fast fashion and seasonal trends, as firms put out new garments throughout the year rather than during one specific period

"Things are dynamic in terms of taste, and so we typically operate on a six-month cycle."

**Vice President Procurement
& Business Services**

Despite challenges, respondents say procuring sustainable cotton is generally not too difficult

Question: How easy does your firm find the identification and purchasing of 'sustainable cotton' compared to 'regular cotton'?



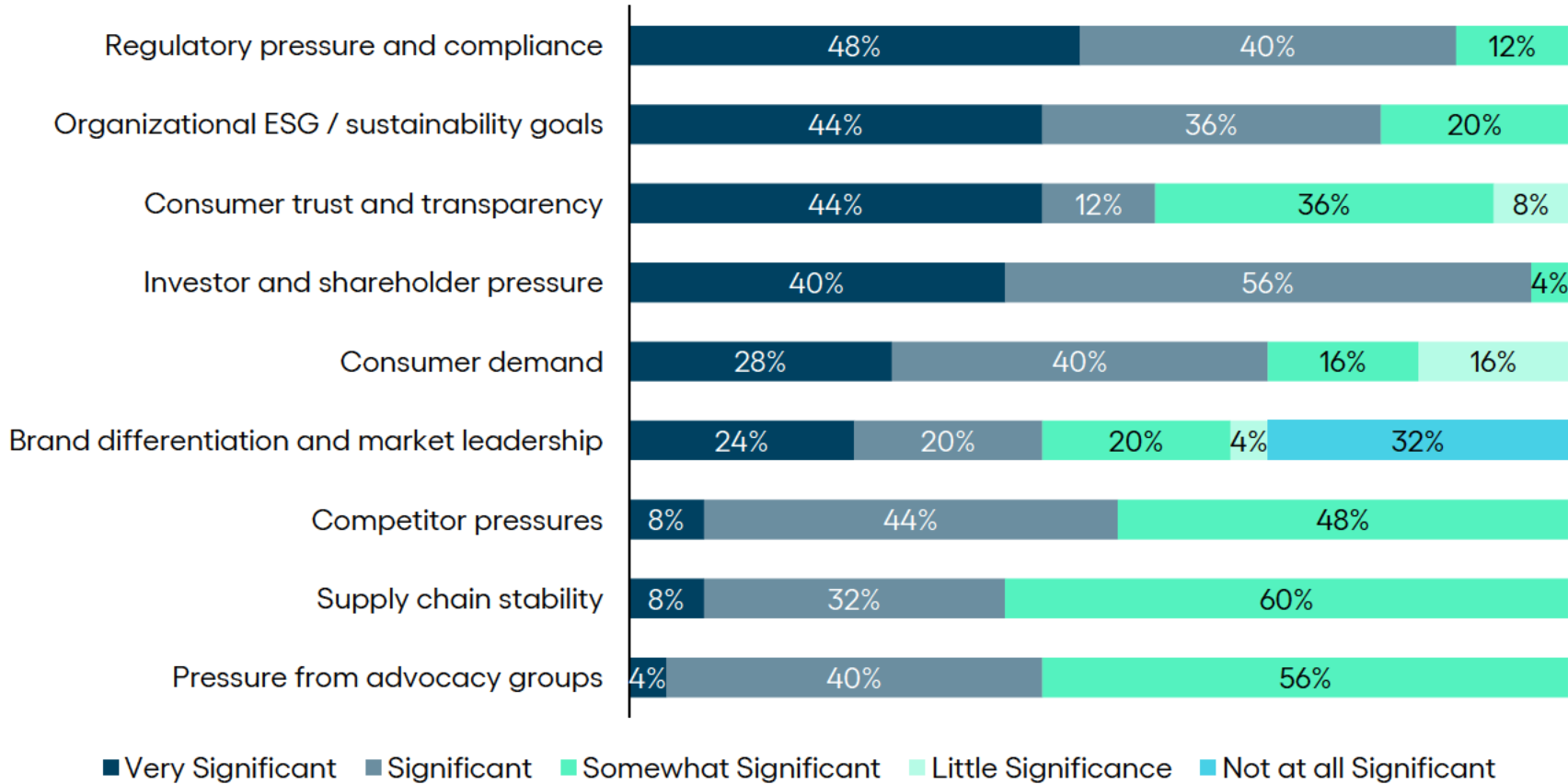
- Relying on certifications makes it easier to purchase sustainable cotton. Rather than needing to define what counts as sustainable and doing their own due diligence, fashion brands can just look for the stamp of approval from an established body. This eliminates some of the challenges around data collection and supply chain transparency and does not require firms to build up as much internal knowledge and expertise
- Respondents from Tier 1 firms find it easier to procure sustainable cotton than those from Tier 2 and Tier 3 firms – 14% from Tier 1 say it is difficult, compared to 33% from Tiers 2 and 3

“There’s a lot of different challenges we face: availability, cost to procure, and where the materials are located, which affects the cost to transport them.”

Senior Supply Chain Accountant

Consumers, regulation and investors pressure firms to procure more sustainable cotton

Question: How significant are the following factors in driving your firm towards the procurement of sustainable cotton?



- In the past 5 years, numerous regulations surrounding supply chain sustainability – such as the EU CSDDD – have taken effect in Europe, North America, and APAC with more on the horizon. Policy is, therefore, a key concern for firms, particularly those with large and complex supply chains (such as the fashion industry)
- Adjusting material inputs is one of the key levers for fast fashion firms to improve their sustainability, making it important for their organizational ESG goals

“It depends on which region you’re looking at. France, for instance, has put the microscope on fast fashion and demands that everything be sustainable going into their market. But in the US, it’s more social pressure than government pressure.”

Senior Supply Chain Accountant

“We had a deep understanding that consumers, especially Gen Z, pay more attention when making a purchasing decision to sustainable versus non sustainable products/brands.”

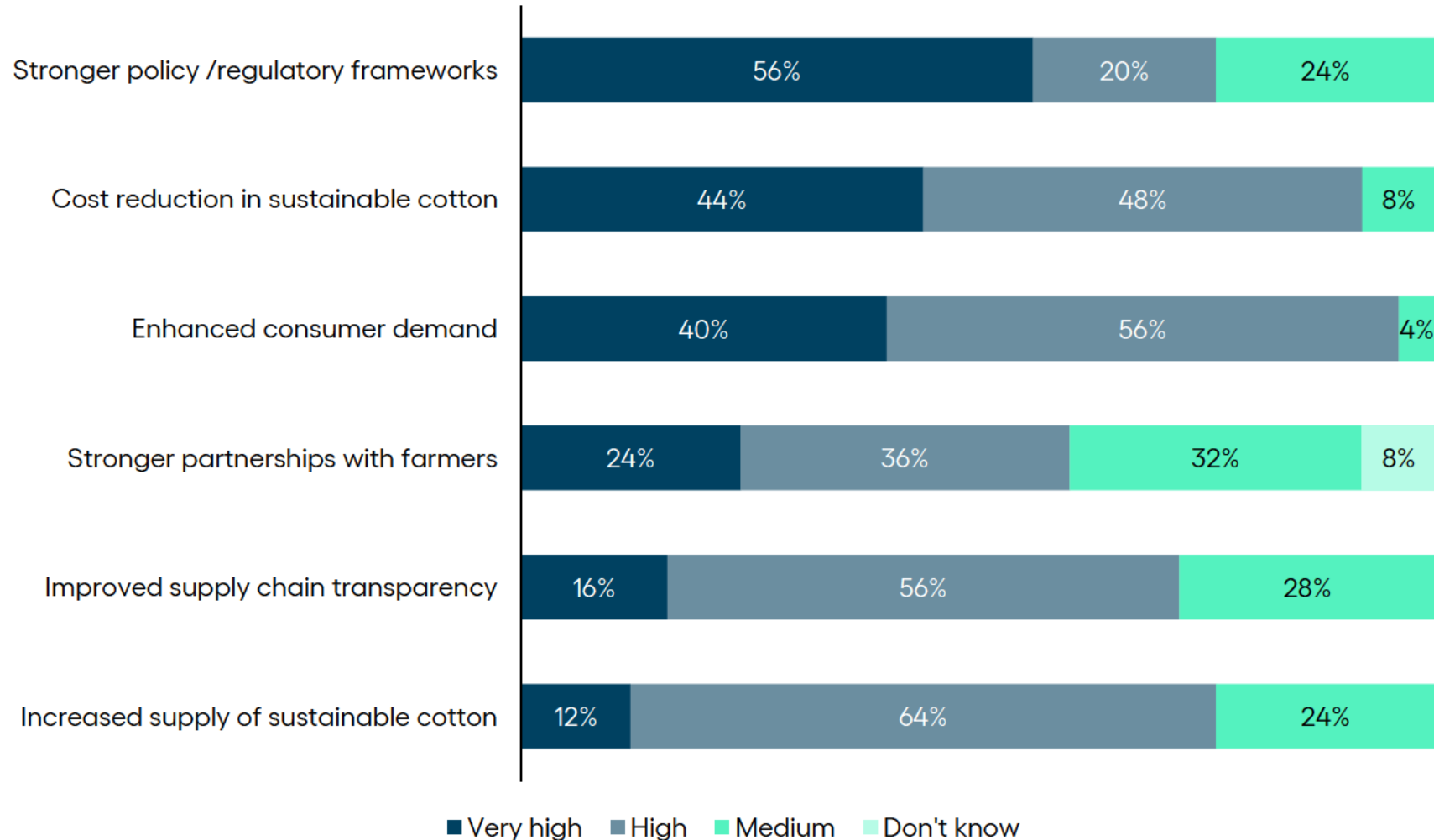
Director of Sustainability Brand Strategy

“You just need two bad TikToks, and you go off the rails real fast.”

Vice President Procurement & Business Services

Policies or stronger financial incentives would drive firms to procure more sustainable cotton

Question: What would be the level of impact of the following changes in the market on your ability/willingness to invest more in sustainable cotton?



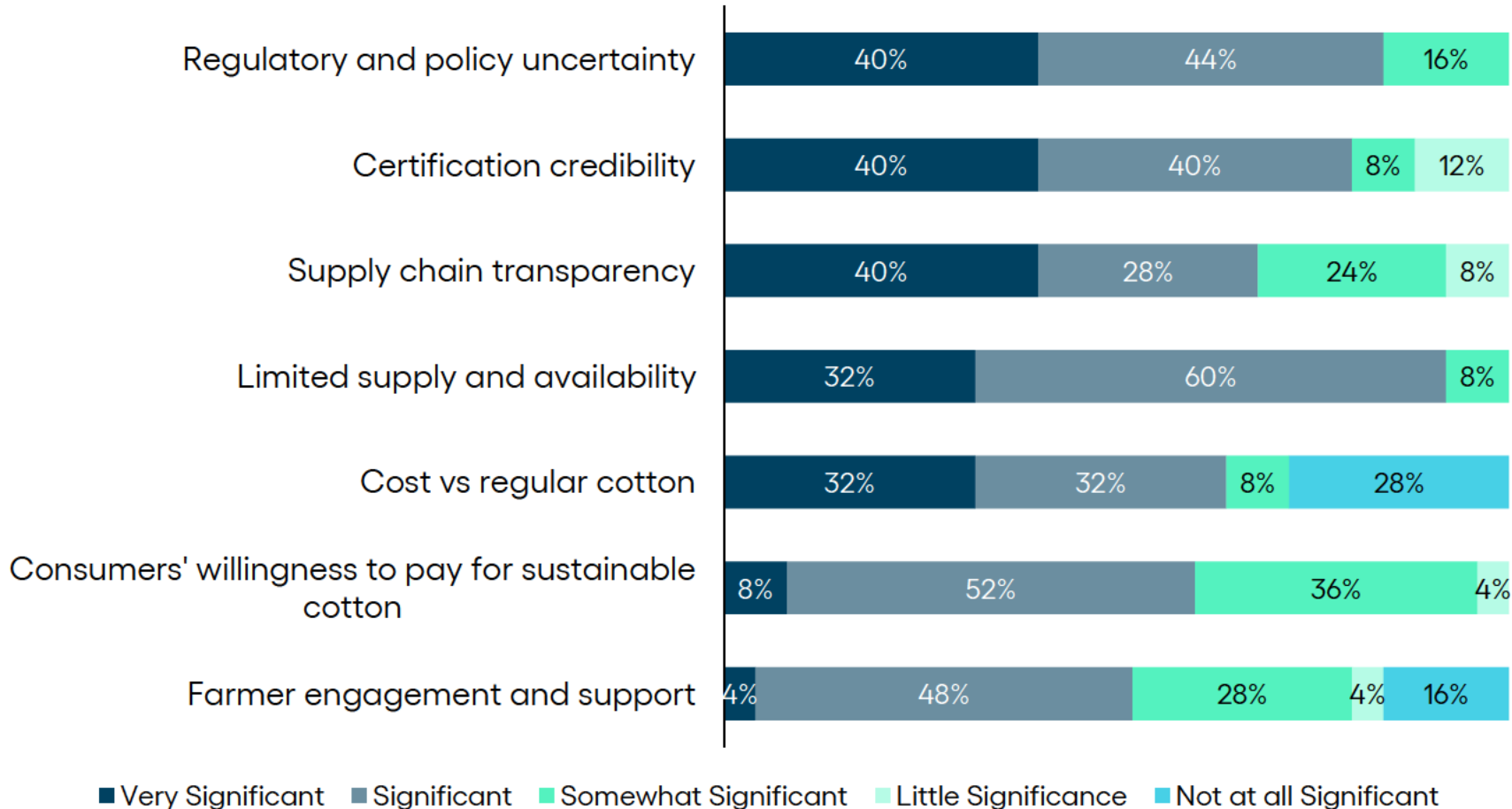
- Due to the increased cost of sustainable cotton, firms must be able to build the business case for the increased investment
- Costs arising from current and future policy and litigation risks strengthens the business case, particularly over longer timescales
- Other factors that could support the business case in the shorter term would be reduced procurement costs and consumers' willingness to pay more for the final product

“Consumers don't wanna pay more for it. You're not getting more brand credit for it, so there needs to be either a huge intrinsic motivation or some of the other stakeholders – like governments, ESG raters or financial markets – may push the agenda to the forefront.”

Director of Sustainability Brand Strategy

Regulatory uncertainty, certification credibility, and supply chain transparency are the most significant challenges in procuring sustainable cotton

Question: How significant are the below challenges in procuring sustainable cotton?



- Most regulations related to sustainable supply chains do not define what counts as sustainable cotton, which creates uncertainty among the fashion industry
- Governments, consumers and shareholders are all increasing their scrutiny of sustainability targets and actions. As a result, firms across industries are focused on ensuring that their claims and those of their suppliers are accurate and that actions have the desired outcomes

“We’re almost at 100% traceability for all of our products up until Tier 3, but Tier 4 is where we really struggle. It’s really hard to get the specific farm information.”

Senior Director of Sustainability

“There’s a lot of confusion in the industry around what certifications qualify as sustainable.”

Senior Director of Sustainability

“It’s an organic commodity, so there’s a cost associated with that. One of the biggest challenges is managing variations in the cost.”

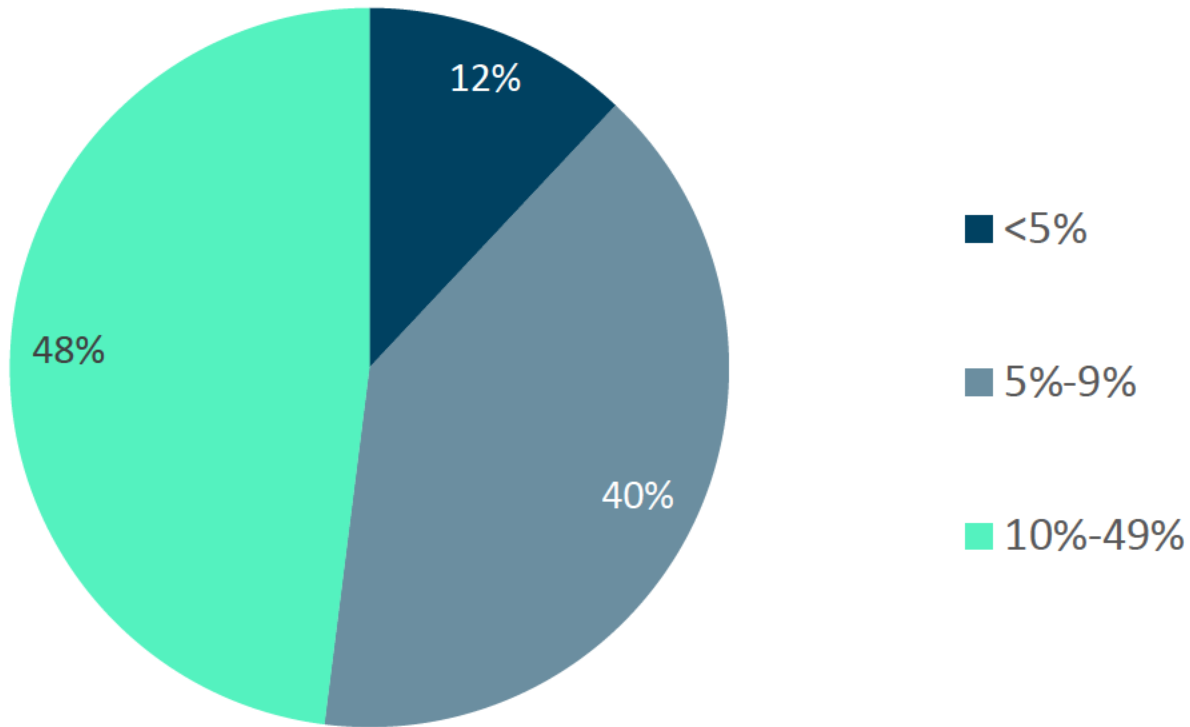
Vice President Procurement & Business Services

“It’s an organic commodity, so there’s a cost associated with that. One of the biggest challenges is managing variations in the cost.”

Vice President Procurement & Business Services

Respondents are willing to pay a premium of up to 50% for sustainable cotton

Question: How high a premium is your firm willing to pay for sustainable cotton vs regular cotton?



- Budget is often a constraint for firms that are trying to improve the sustainability of their supply chains. However, all but 3 firms surveyed are willing to pay a premium of at least 5% for sustainable cotton, reflecting the importance of sustainable cotton for ESG goals in the apparel industry
- Tier 1 and Tier 2 firms are willing to pay a higher premium than Tier 3 firms – 57% of respondents from Tier 1 firms and 78% of respondents from Tier 2 firms are willing to pay a premium of at least 10%, compared to only 11% of respondents from Tier 3 firms

“We make sure that the farms are being paid a premium for the cotton that they’re growing for us and that they’re getting fair pay.”

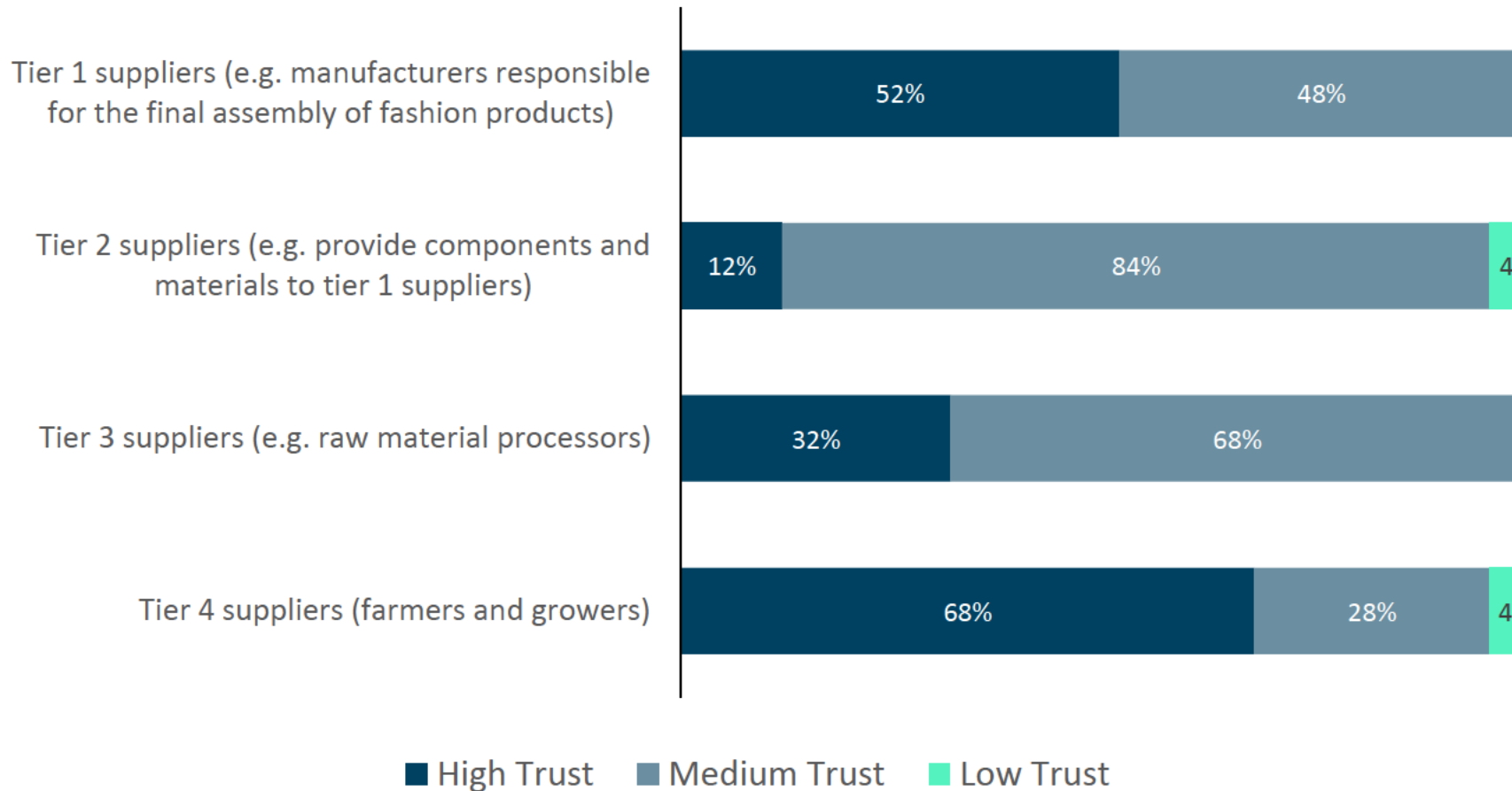
Head of Sourcing, Ethical & Sustainability

“We invest more when we are looking at transitioning a farm from organic to regenerative. So we’re looking at building the supply chain, rather than just buying the material.”

Senior Director of Sustainability

Respondents have the most trust in sustainability initiatives at the Tier 1 and Tier 4 supplier levels

Question: How would you rate the level of trust you would have in paying for sustainable cotton at the following levels of your supply chain?



Note: percentages less than 5% are written as numbers
N = 25
Source: Verdantix analysis for Olam Agri

- In general, firms have better visibility into their Tier 1 suppliers than into lower tiers of their supply chains, making it easier to gather data and know what is happening at this highest tier
- Apparel brands are starting to implement on-farm programs, building direct relationships with farmers. This gives them more visibility into their Tier 4 suppliers, but relationships with Tier 2 and 3 suppliers are limited

“We work with FibreTrace, which has a digital and a physical tracer that enables us to know that what we think we’re purchasing is actually what we’re getting.”

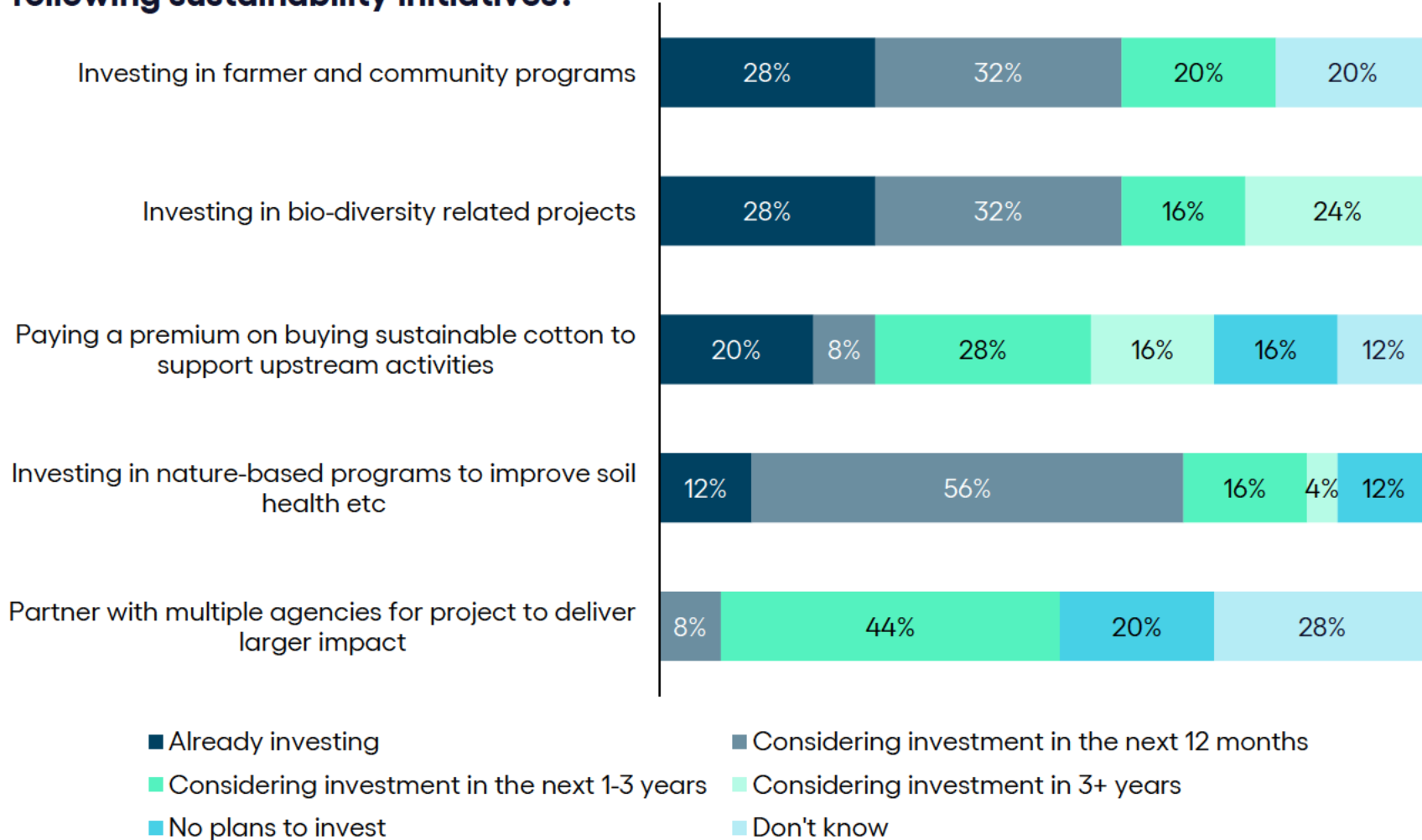
Senior Director of Sustainability

“One of the things that we ask for is making sure that we get transaction certificates.”

Senior Director of Sustainability

Respondents are interested in investing in farmer and community programs, as well as other sustainability initiatives

Question: What are your plans / current thinking with respect to investing in the following sustainability initiatives?



- On-farm programs improve supply chain visibility and give fashion brands an opportunity to have a more direct impact at the local level – for example, by offering training to change agricultural practices and labor conditions. The multiple sustainability benefits of on-farm programs make them attractive for businesses – 28% of respondents are already investing in farmer and community programs and another 32% are considering investment in the next year
- Biodiversity and nature-based programs are other initiatives with high current investment or strong interest in investing in the next 12 months. This reflects the recent focus across industries on nature positivity and mitigating nature risks and dependencies

“We want to keep the organic training program going because the farmers don’t stop needing training and people come and go.”

Head of Sourcing, Ethical & Sustainability

“By having a direct relationship with farms, we’re able to ensure that the farmers are being paid properly.”

Senior Director of Sustainability



Thank you

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