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Are Retailers Who Use Organic Cotton Successful?

With a Ph.D. in Agricultural and Resource Economics from Oregon State University in the USA, Dr. Terry Townsend is a consultant on commodity issues. He is currently working with the African Cotton and Textile Industries Federation (ACTIF). He served as executive director of the International Cotton Advisory Committee (ICAC) and has also worked at the United States Department of Agriculture for five years, analyzing the U.S. cotton industry and editing a magazine devoted to a cross-section of agricultural issues.

EXPERT'S Column



Dr. Terry Townsend

“An increasingly important priority is sustainability and transparency, reflecting rising concerns on the part of consumers and companies about how to alleviate their impact on the environment. Sustainability, which for the first time, breaks into our respondents’ list of the most important challenges, is evolving from a tick-box exercise into a transformational feature that is engrained in the business model and ethos of many recent success stories.”

Textile and Apparel manufacturers face many challenges, including new pressures to manufacture “sustainably.” The word “sustainability” means different things to different people, but whatever it means, advocates claim that consumers are demanding it.

A search on the phrase “fashion industry sustainability” yields nearly 70 million results. Just one recent example among the 70 million references is a report by McKinsey & Company, “The State of Fashion 2019.”¹

So, if there is rising concern about sustainability, shouldn’t brands and retailers that ostentatiously include sustainability standards in their business models be doing well? Shouldn’t the companies that give high visibility to sustainability issues be doing better than other businesses that stress price and fashion and say little about sustainability?

Top Ten Users of Organic Cotton

Every company has something in their annual report or on their web site that touts commitment to sustainability concerns, but some companies seem to place greater emphasis on sustainability than others. The Textile Exchange website lists

an Organic Cotton Leaderboard 2016, the most recent year shown. The Leaderboard lists the top 10 purchasers of organic cotton by volume, and this list is a place to start in evaluating the performance of companies that emphasize sustainability in their business models:

1. C&A
2. H&M
3. Tchibo
4. Nike
5. Inditex
6. Lindex
7. Boll & Branch
8. Woolworths
9. Williams-Sonoma, Inc.
10. Stanley/Stella.

There are other lists on the Textile Exchange website, including brands supporting organic cotton, Top 10 by Growth, Race-to-the-Top, 100% Club, and Top 10 Organic Fair Trade by volume. In all, as of September 2019, 200 companies, foundations, and associations were listed as members of the Textile Exchange in 2016. While it might be instructive to look at the financial performance of all 200 members of the Textile Exchange, the list of Top 10 by Volume serves as a representative subset of the total.

C&A

As of 2016, C&A was the largest retailer of organic cotton products in the world. C&A is an international chain of fast-fashion retail clothing stores.² As of November 2017, C&A had 50,000 employees worldwide working in 84 stores in China, 297 in Brazil, one in Colombia, and more than 1,000 stores in Europe. Since C&A is privately owned, comprehensive public filings are not available, but the company seems to be retrenching. A fashion trade publication³ reports that during 2011, C&A revenue in Germany, C&A's largest market, was 3.1 billion Euros, or one-third of global sales. The trade publication also reported that C&A revenue in Germany dropped to 2.45 billion Euros by 2017, a decline of 21% in six years. In November 2017, it was reported that C&A was selling or closing 36 stores in Spain, and that its network in France

would also be reduced⁴. The move was described as part of a restructuring plan to counter the increased competition from both other stores and the online world.

H&M

H&M is a clothing retailer known for fast-fashion operating in 62 countries with 4,955 stores and 177,000 employees as of February 2019⁵. H&M is the second-largest global clothing retailer, and the second largest user of organic cotton. H&M is publicly traded in Sweden. Gross revenue (sales) grew 8% from US\$22.1 billion in 2014 to \$23.9 billion in 2018; the average annual rate of growth in sales was 2%. However, inventory costs rose faster than revenue, and gross profit (sales minus cost of inventory) decreased, from US\$13 billion in 2014 to \$12.6 billion in 2018. The share price of H&M stock dropped from approximately US\$5 in 2014 to \$2 as of September 2019. Accordingly, investors who bought and held H&M shares since 2014 have lost 60% of their investment as of September 2019.

Tchibo

Tchibo is a German retail chain of coffee houses that also sells a range of non-coffee products, including clothing⁶. Headquartered in Hamburg, Tchibo has 620 stores in Germany, including 500 with coffee bars, and 350 shops in Europe and Turkey, all with coffee bars. In addition, there are approximately 19,000 "depots" at retailers and supermarkets in Germany, of which 8,300 sell non-food items.

The company is privately held, and so financial filings are not available. The company website says that global revenue was Euro 3.15 billion in 2018. However, an industry newsletter⁷ written in 2015 says that revenue that year was Euro 3.3 billion, meaning that gross sales were at best flat and probably declined in recent years. Since clothing items are peripheral components of Tchibo's retail inventory, it is not possible to gauge the pace or size of clothing sales.

Nike

Nike is the world's largest supplier of athletic shoes and apparel, and it is a major manufacturer of sports equipment. Based in the United States, Nike employs 76,000. As a public company with shares traded on the New York Stock Exchange, Nike files regular financial

reports. Nike is extraordinarily successful, with revenue more than doubling between 2009 and 2019 and reaching \$39 billion. Over the last five years, the average value of Nike shares roughly doubled, climbing from \$45 to nearly \$90. Nike was the fourth largest user of organic cotton in the world in 2016.

Inditex

Inditex describes itself as one of the world's largest fashion retailers with eight brands, including Zara and Zara Home⁸. Inditex is a public company headquartered in Spain with shares traded in Madrid. Counting all eight brands, the company has more than 7,000 stores in 96 countries. Out of the total, there are 2,251 Zara stores and 588 Zara Home stores. In addition, Inditex reaches consumers in 46 additional countries through its online portal. Zara, the fifth largest user of organic cotton in 2016, is a fast-fashion retailer managing up to 20 clothing collections a year⁹. Zara revenue in 2018 was \$18.9 billion, nearly double revenue from ten years earlier. A share of Inditex common stock rose from approximately 4 Euro in 2002 to 36 Euro in mid-2017, but has since slid to 28 Euro as of September 2019. Nevertheless, over the 17-year period, Inditex stock rose by more than 600%, with annual increases averaging more than 30%. That is a fantastic financial performance by any measure.

Lindex

Lindex is a Swedish fashion chain within the Finnish Stockmann Group¹⁰. The company has around 5,000 employees and approximately 480 stores in 18 markets in Northern and Central Europe and the Middle East. Lindex also serves shoppers in the EU and Norway with an online portal. Lindex the sixth largest user of organic cotton in 2016, carries women's and children's clothing, lingerie, and cosmetics. The company issues public annual reports¹¹, and revenue for the Stockmann Group was Eur 164.3 million in 2018, down 3% from 2017. 80% of revenue comes from its fashion division. The Group opened 13 stores but closed 29 during 2018. Stockmann is traded on the stock exchange in Stockholm, and the price of one share declined from Euro 13 in mid-2013 to Euro 2 as of September 2019¹², obviously an abysmal financial performance.

Boll & Branch

Boll & Branch, the seventh largest user of

organic cotton in 2016, is a private e-commerce company based in the United States that sells luxury bedding, blankets and towels from organic cotton¹³. Most Boll & Branch products are made in Kolkata, India from cotton grown by CHETNA Organic in the state of Orissa, India. Revenue in 2016 is estimated at \$40 million. The company was started in 2014.

Woolworths

Woolworths is a South Africa based multinational retail chain operating 218 full-line stores and 64 additional stores throughout the rest of Africa. Woolworths was the eighth largest user of organic cotton in 2016. The company sells clothing and accessory items under a number of premium brands. The company is publicly traded in Australia, and the company's share price has been highly volatile. The company's stock rose from AUD 29 in September 2009 to AUD 38 in April 2014, and then plummeted to AUD 21 in July 2016, but has since recovered to AUD 36 in September 2019¹⁴. Woolworths has been involved in several controversies over the last decade, including allegations that the company plagiarized certain clothing and furniture designs. Revenue in 2018 was approximately US\$5 billion.

Williams-Sonoma

Williams-Sonoma is a publicly traded American retail chain that specializes in kitchenware and home furnishings. The company has more than 600 locations, and it is one of the largest e-commerce retailers in the United States. Revenue climbed from \$4.4 billion in 2014 to \$5.3 billion in 2018, a gain of 20% over four years, or roughly 5% per year. One share of Williams-Sonoma stock was approximately \$13 in mid-1999. The share price rose to \$40 in 2007 prior to the worldwide recession, dropped to \$8 during the recession, and then rose steeply in the years after the recession. As of September 2019, Williams-Sonoma stock was trading around \$65.

Stanley/Stella

Finally, rounding out the list of Top 10 users of organic cotton in 2016, Stanley/Stella describes itself as a people-centered community that carefully selects manufacturers for quality, know-how and their respect for the working conditions of employees¹⁵. Staley/Stella is a relatively small company based in Belgium with 100 employees working with only 7 factories and

producing just 142 styles in 106 colors. The fibres used in their clothing are 100% organic cotton or “mostly” recycled polyester. The Stanley/Stella website claims that organic cotton helps to “maintain humidity,” and that “waste” from the ginning process is “recycled for the animal feed industry.” Apparently, employees of Stanley/Stella don’t know much about agriculture. The company is privately held. In 2017, the company sold 9 million pieces with revenue of \$47 million. On its LinkedIn page, Stanley/Stella reports that revenue had grown to \$50 million from the sale of 10 million pieces.

Summary Observations

The top ten users of organic cotton have different fiscal years, some are private while some are public, some are primarily clothing retailers while Tchibo is primarily a coffee retailer, Nike primarily sells shoes, and Williams and Sonoma sells primarily kitchenware. Therefore, it is impossible to estimate how much cotton in total, and how much organic cotton, the ten retailers account for each year. The ten retailers together have annual sales of over \$100 billion, but what percentage of annual sales is tied to organic cotton products is impossible to estimate.

Three of the top ten users of organic cotton are based in the United States (Nike, Boll & Branch, Williams and Sonoma), one is based in Africa (Woolworths) and six are based in Western Europe, including the three largest. Therefore, if use of organic cotton is an indicator of the integration of sustainability concerns into business models, then Europe is clearly the center of concern about sustainability. Further, the list of top ten users of organic cotton indicates that consumers in Latin America, all of Africa other than South Africa, and everywhere East of the Urals are less concerned about sustainability than are consumers in Western Europe.

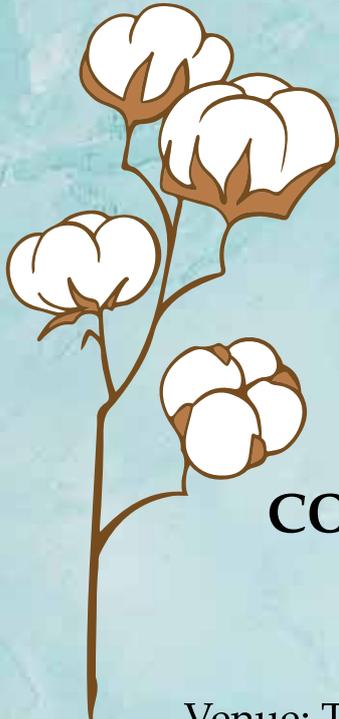
Revenue and share price data give a mixed picture about the effectiveness of incorporating organic cotton into business models. The largest user of organic cotton in 2016, C&A, is facing challenges as a retailer. Gross revenue at the second largest user of organic cotton, H&M is rising, but costs are climbing, and the company lost value in recent years. Revenue at Lindex declined in recent years. In contrast, Nike, Inditex, and Williams-Sonoma are doing

very well, and Boll & Branch and Stanley/Stella also seem to be expanding.

Given the mixed picture across the ten organizations on revenue and share prices, it would seem that the inclusion of organic cotton in a brand or retailer’s business identity might be helpful, but it is not sufficient to guarantee sales gains or profitability.

- ¹ *The State of Fashion 2019, McKinsey & Company, Vikram Alexei Kansara, Editorial Director, vikram.kansara@businessoffashion.com*
- ² <https://en.wikipedia.org/wiki/C%26A>
- ³ <https://www.statista.com/statistics/498820/revenue-canda-germany/>
- ⁴ <https://www.retaildetail.eu/en/news/fashion/ca-sells-13-french-stores>
- ⁵ <https://en.wikipedia.org/wiki/H%26M>
- ⁶ <https://en.wikipedia.org/wiki/Tchibo>
- ⁷ https://www.adbrands.net/de/tchibo_de.htm
- ⁸ <https://www.inditex.com/en/about-us/our-brands/zara>
- ⁹ [https://en.wikipedia.org/wiki/Zara_\(retailer\)](https://en.wikipedia.org/wiki/Zara_(retailer))
- ¹⁰ <https://en.wikipedia.org/wiki/Lindex>
- ¹¹ <http://www.stockmanngroup.com/documents/10157/125020/Financial+Statements+2018+FINAL.pdf/4cc0d813-e710-c2c2-aad9-69c0ef6e22ff>
- ¹² https://markets.businessinsider.com/stocks/oy-stockmann_1-stock
- ¹³ https://en.wikipedia.org/wiki/Boll_%26_Branch
- ¹⁴ <https://markets.businessinsider.com/stocks/woolworths-stock>
- ¹⁵ <https://www.stanleystella.com/en-gb/sustainability-responsible-production>.

(The views expressed in this column are of the author and not that of Cotton Association of India)



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ASSOCIATION
OF INDIA**

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(Akola)

October 18th & 19th 2019

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Glimpses of Ganeshotsav

From 2nd September to 12th September 2019



UPCOUNTRY SPOT RATES													
								(Rs./Qtl)					
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]								Spot Rate (Upcountry) 2018-19 Crop September - October 2019					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	30th	1st	2nd	3rd	4th	5th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 - 7.0	4%	15	10939 (38900)	10826 (38500)		-	-	-
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 - 7.0	4.5%	15	11079 (39400)	10967 (39000)	H	-	-	-
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	13%	20	9055 (32200)	8998 (32000)		8998 (32000)	8998 (32000)	8998 (32000)
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	4.5%	21	10348 (36800)	10320 (36700)	O	10320 (36700)	10320 (36700)	10320 (36700)
5	M/M (P)	ICS-104	Fine	24mm	4.0 - 5.5	4%	23	10911 (38800)	10826 (38500)		10826 (38500)	10826 (38500)	10826 (38500)
6	P/H/R (SG)	ICS-202	Fine	27mm	3.5 - 4.9	4.5%	26	11164 (39700)	10995 (39100)		-	-	-
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 - 3.4	4%	25	10629 (37800)	10517 (37400)	L	10517 (37400)	10517 (37400)	10517 (37400)
8	P/H/R	ICS-105	Fine	27mm	3.5 - 4.9	4%	26	11304 (40200)	11135 (39600)		-	-	-
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 - 3.4	4%	26	10798 (38400)	10686 (38000)	I	10686 (38000)	10686 (38000)	10686 (38000)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 - 4.9	3.5%	26	11107 (39500)	10967 (39000)		10911 (38800)	10911 (38800)	10911 (38800)
11	P/H/R	ICS-105	Fine	28mm	3.5 - 4.9	4%	27	11360 (40400)	11192 (39800)		-	-	-
12	M/M(P)/SA/TL	ICS-105	Fine	28mm	3.5 - 4.9	3.5%	27	11614 (41300)	11585 (41200)	D	11585 (41200)	11585 (41200)	11585 (41200)
13	GUJ	ICS-105	Fine	28mm	3.5 - 4.9	3.5%	27	11585 (41200)	11529 (41000)		11529 (41000)	11529 (41000)	11529 (41000)
14	M/M(P)/SA/TL/K	ICS-105	Fine	29mm	3.5 - 4.9	3.5%	28	11867 (42200)	11782 (41900)	A	11754 (41800)	11754 (41800)	11754 (41800)
15	GUJ	ICS-105	Fine	29mm	3.5 - 4.9	3.5%	28	11782 (41900)	11698 (41600)		11698 (41600)	11698 (41600)	11698 (41600)
16	M/M(P)/SA/TL/K/O	ICS-105	Fine	30mm	3.5 - 4.9	3%	29	12092 (43000)	12035 (42800)		12035 (42800)	12035 (42800)	12035 (42800)
17	M/M(P)/SA/TL/K/TN/O	ICS-105	Fine	31mm	3.5 - 4.9	3%	30	12232 (43500)	12176 (43300)	Y	12176 (43300)	12176 (43300)	12176 (43300)
18	SA/TL/K/TN/O	ICS-106	Fine	32mm	3.5 - 4.9	3%	31	12654 (45000)	12570 (44700)		12513 (44500)	12513 (44500)	12513 (44500)
19	M/M(P)/K/TN	ICS-107	Fine	34mm	3.0 - 3.8	3.5%	33	14904 (53000)	14904 (53000)		14904 (53000)	14904 (53000)	14904 (53000)

(Note: Figures in bracket indicate prices in Rs./Candy)

UPCOUNTRY SPOT RATES													(Rs./Qtl)
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]								Spot Rate (Upcountry) 2019-20 Crop September - October 2019					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	30th	1st	2nd	3rd	4th	5th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 - 7.0	4%	15	-	-	H	10770 (38300)	10770 (38300)	10770 (38300)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 - 7.0	4.5%	15	-	-		10882 (38700)	10882 (38700)	10882 (38700)
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	13%	20	-	-		-	-	-
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	4.5%	21	-	-	O	-	-	-
5	M/M (P)	ICS-104	Fine	24mm	4.0 - 5.5	4%	23	-	-		-	-	-
6	P/H/R (SG)	ICS-202	Fine	27mm	3.5 - 4.9	4.5%	26	-	-	L	10517 (37400)	10601 (37700)	10601 (37700)
7	M/M(P)/ SA/TL	ICS-105	Fine	26mm	3.0 - 3.4	4%	25	-	-		-	-	-
8	P/H/R	ICS-105	Fine	27mm	3.5 - 4.9	4%	26	-	-		10629 (37800)	10714 (38100)	10714 (38100)
9	M/M(P)/ SA/TL/G	ICS-105	Fine	27mm	3.0 - 3.4	4%	26	-	-	I	-	-	-
10	M/M(P)/ SA/TL	ICS-105	Fine	27mm	3.5 - 4.9	3.5%	26	-	-		-	-	-
11	P/H/R	ICS-105	Fine	28mm	3.5 - 4.9	4%	27	-	-	D	10714 (38100)	10798 (38400)	10798 (38400)
12	M/M(P)/ SA/TL	ICS-105	Fine	28mm	3.5 - 4.9	3.5%	27	-	-		-	-	-
13	GUJ	ICS-105	Fine	28mm	3.5 - 4.9	3.5%	27	-	-		-	-	-
14	M/M(P)/ SA/TL/K	ICS-105	Fine	29mm	3.5 - 4.9	3.5%	28	-	-	A	-	-	-
15	GUJ	ICS-105	Fine	29mm	3.5 - 4.9	3.5%	28	-	-		-	-	-
16	M/M(P)/SA/ TL/K/O	ICS-105	Fine	30mm	3.5 - 4.9	3%	29	-	-	Y	-	-	-
17	M/M(P)/SA/ TL/K /TN/O	ICS-105	Fine	31mm	3.5 - 4.9	3%	30	-	-		-	-	-
18	SA/TL/K/ TN/O	ICS-106	Fine	32mm	3.5 - 4.9	3%	31	-	-		-	-	-
19	M/M(P)/ K/TN	ICS-107	Fine	34mm	3.0 - 3.8	3.5%	33	-	-		-	-	-

(Note: Figures in bracket indicate prices in Rs./Candy)