GOALS, GAINS & GAMBLING

ON THE STATUS QUO

2018 SUSTAINABILITY REPORT

SOURCING JOURNAL

Cotton Incorporated

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EXECUTIVE SUMMARY

Thanks to a few intrepid apparel and footwear companies that have lead the way in sustainable and environmental practices, today the industry is laying the groundwork for a new, more responsible future. The momentum is evidenced by the number of brands and retailers announcing new sustainability goals and timelines, hosting large-scale apparel recycling programs, joining human rights initiatives and shutting down the unethical treatment of animals.

The result is sustainability efforts that are much more advanced than those from a decade ago when companies were unsure of how to address issues related to the environment. This survey highlights the ways in which the apparel industry is evolving, the challenges companies face as they attempt to adopt more sustainable practices and the resources at hand to help them do so.

Even as the industry charts a path forward, the reality is that business goals and shareholder demands often still outweigh sustainability mandates. Continued challenges at retail mean companies must let go of old practices in favor of new processes while figuring out how to justify making near-term investments in the hopes of long-term gains.

To accelerate change, La Rhea Pepper, managing director of global sustainability non-profit Textile Exchange, said companies will have to rethink how they're handling sustainability. For a lot of them, she said, they're only willing to take "a little margin hit on a certain percentage of their program."

"The question is are we going to break the glass ceiling? Are there just going to be brands just dabbling in sustainable programs or will they change their business model and drive systemic change and address the real issues?," Pepper said.

One industry professional is looking for exactly that type of sea change in their organization, saying "A radical overhaul of our supply chain is needed as our business model is completely incompatible with responsible/sustainable practice."

While not all feel as strongly, the majority of survey respondents acknowledged their companies—and the industry in general—aren't doing enough.

For some, the challenge comes from within their organizations, as they battle coworkers content with the status quo. Others say they need more resources to create comparable products from sustainable materials. Still others are calling for better education across the entire supply chain to bring greater awareness of the need for and implementation of sustainable initiatives.

One survey respondent summed it up, saying, "The biggest challenge is the implementation of some of these more sustainable processes in the supply chain. In order for anything to be successful, the speed of the market needs to slow down and the consumers perceived value needs to change."

PROGRESS

“Not being sustainable is like being the smoker in the room. You have to smoke outside. You’re not part of us. It’s unfashionable not to have an agenda,” said sustainable fashion designer and consultant Carmen Artigas, explaining the current atmosphere.

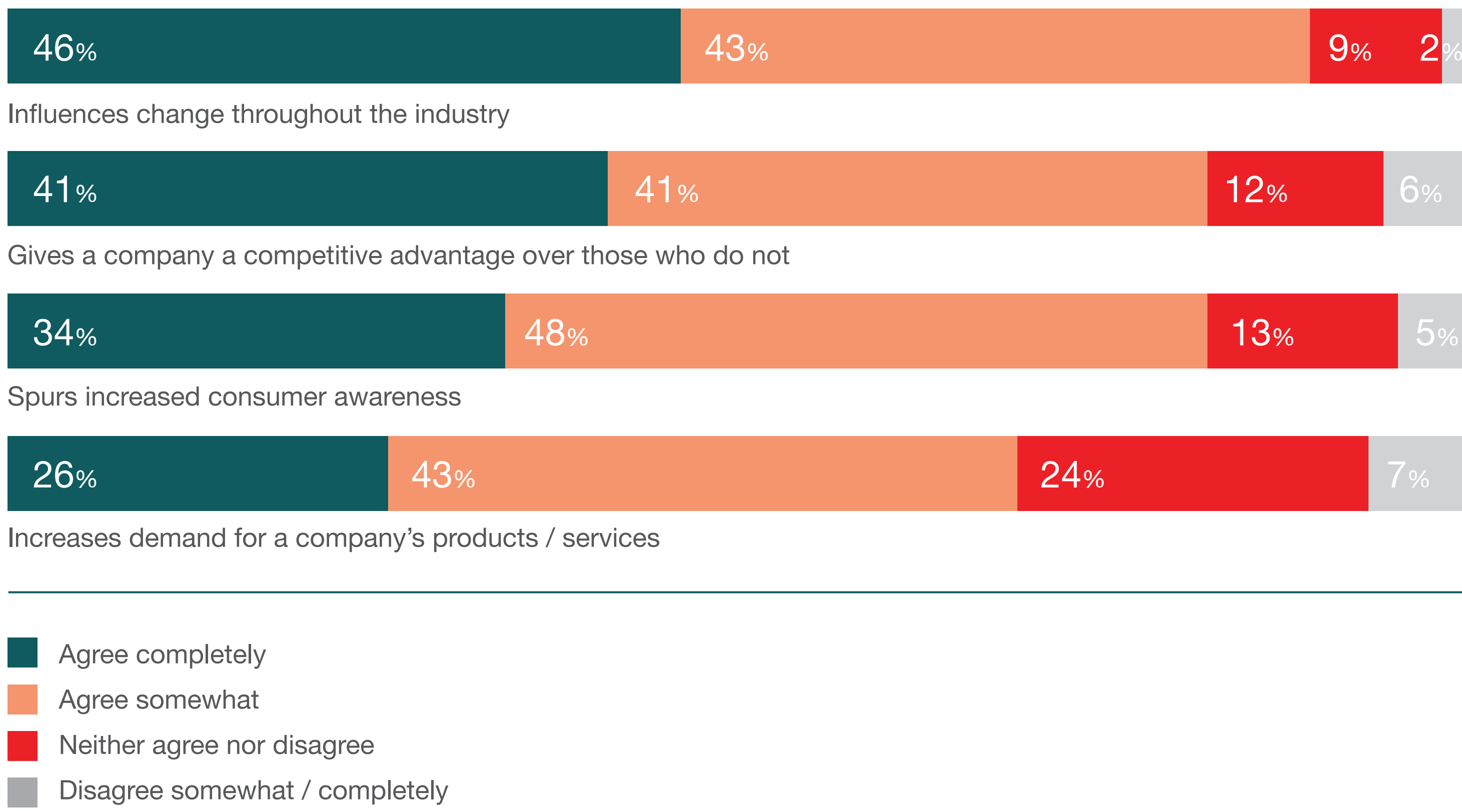
Pepper points to the support her organization is seeing for initiatives like its sustainable cotton challenge as proof that the industry is moving forward. “Fifteen years ago, there were a handful of brands that had CSR departments, especially in the textile community,” she said. “We have over 260 active brands and retailers we work with on a strategic level on developing strategies and discovering their obstacles to growth.”

She attributes the change to more education and awareness of the problems, poverty and pollution the industry can cause. And according to Pepper, executives are also realizing that neither consumers nor investors will stand for it much longer.

Marsha Dickson, professor and co-director of the sustainable apparel initiative at the University of Delaware, credits groups like the Sustainable Apparel Coalition for creating a “bandwagon effect,” drawing in brands and retailers.

Practicing sustainability and environmental responsibility:

85% believe sustainability and environmental responsibility will soon be the norm (or already is)



A decade ago, Dickson said, companies didn't know what to do, resulting in a flurry of eco-friendly capsule collections. "It's huge what's been accomplished since then. They're much more versed in quite a range of ways to pursue sustainability and are more serious about addressing it," she said.

Eighty-five percent of those surveyed believe adoption of these practices is already or will soon be the norm. While some are on the fence, only a scant few (5 percent) refuse to believe sustainability is going mainstream.

Lending credence to Dickson's bandwagon theory, 90 percent said these practices influence others throughout the supply chain. Though only 69 percent believe it increases demand for their company's products, 82 percent said making a commitment in this area can give businesses an advantage over their competitors.

When asked whether it's processes or products leading the charge in their companies, 64 percent said the focus is on using environmentally responsible materials and 59 percent are concerned with how their products are made. More than half (56 percent) said being sustainable means juggling margins against environmental and humanitarian concerns.

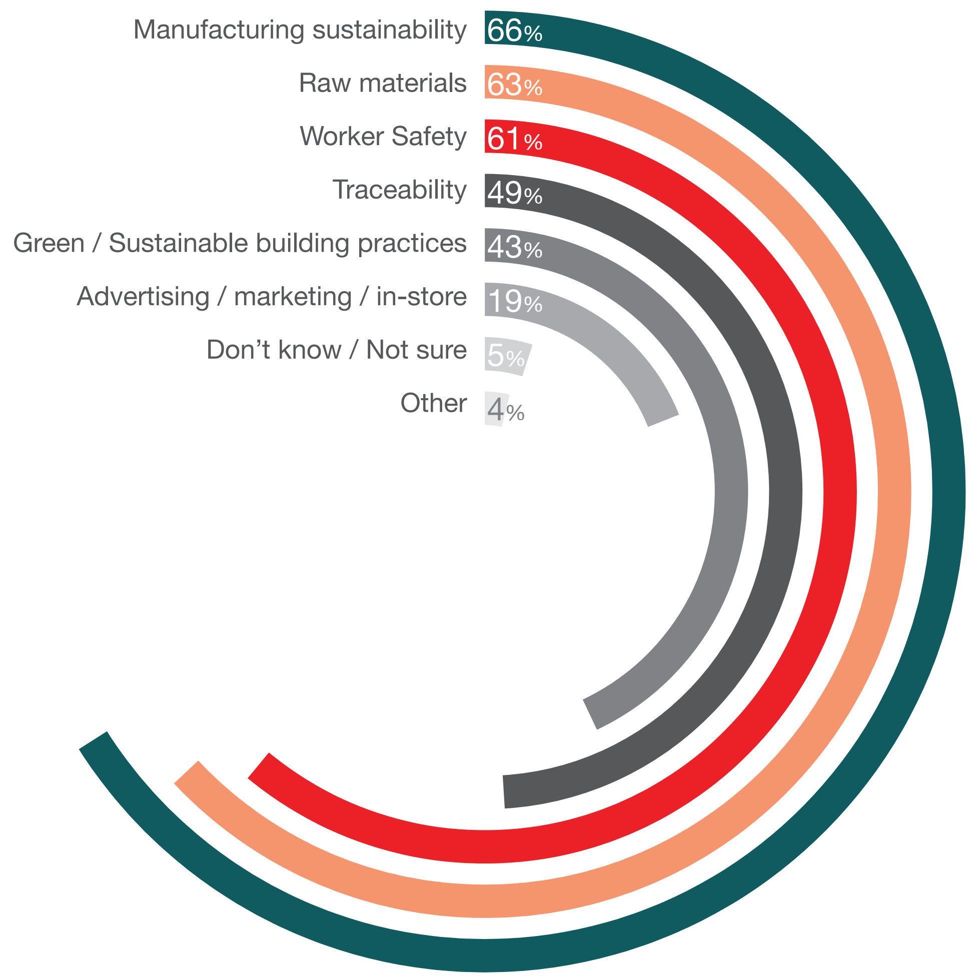
What sustainability means to their companies:

Of those polled, more than 6 in 10 focus on sustainability in manufacturing like reducing impacts of adverse chemistries and water and energy usage (66 percent), sourcing sustainably produced materials (63 percent) and worker safety and well being (61 percent). Traceability (49 percent), green building practices (43 percent) and marketing (19 percent) trailed behind.

"As transparency is key in becoming sustainable, I think it is hard to track/trace every step of the process, since this industry still functions [with] old school or ancient methods," one respondent offered. "It seems there needs to be focused efforts and support from governments and business to start digitizing raw material farms to the entire value chain, during use of product, and end use."

Pepper seconds this call for transparency through traceability. "You can't make good decisions without good information," she said, adding that's why Textile Exchange is working on a central database around chain of custody standards.

The main areas of focus when it comes to environmental and sustainable initiatives:

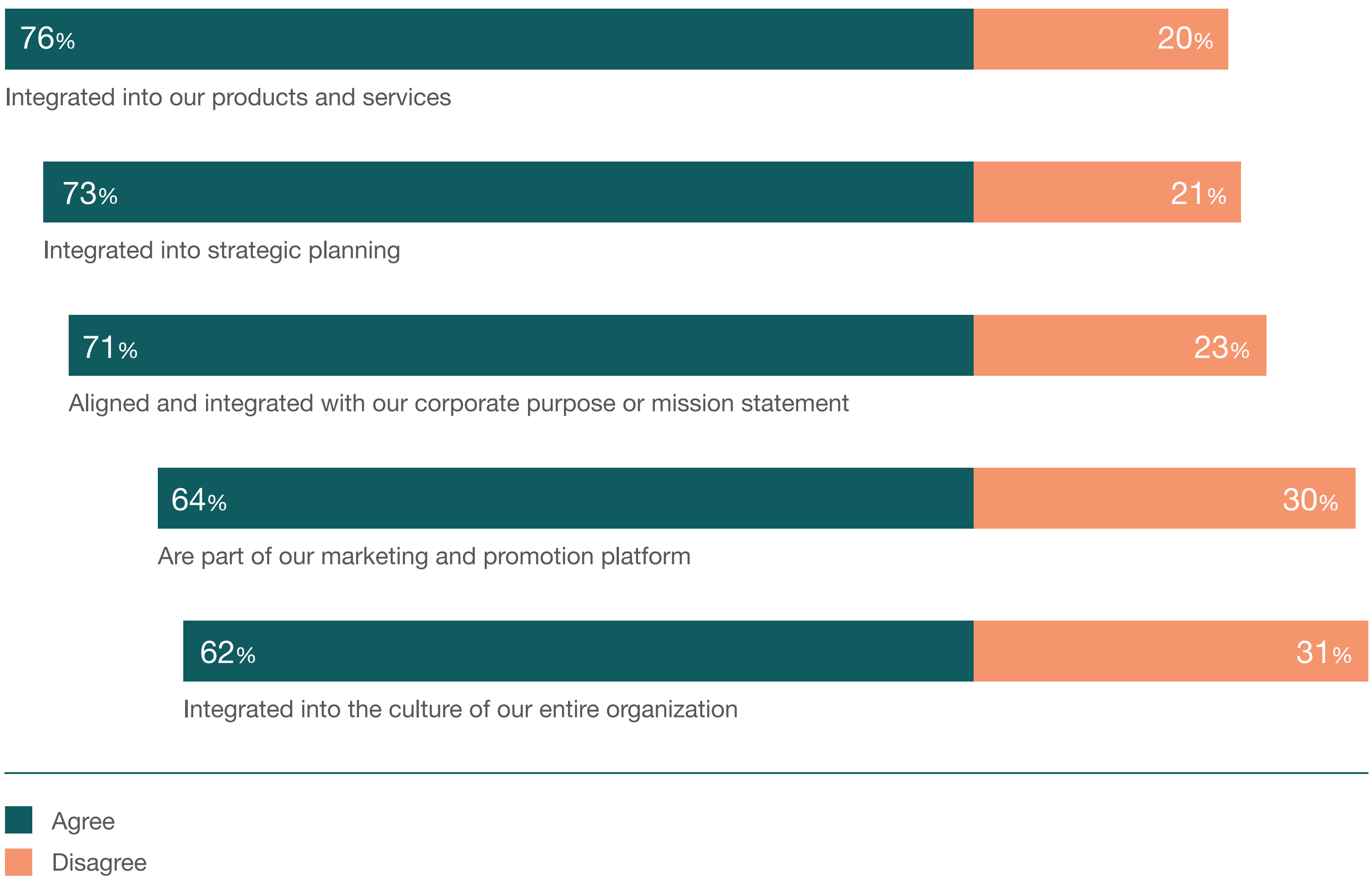


More than 7 out of 10 respondents see sustainability and CSR as integrated into their products, services and strategic planning. An almost equal number say these initiatives are aligned with their company's mission statement.

Even with those results, there were some who said they feel stymied by old ways of thinking. One respondent lamented getting "push back from people who have been in the business a long time and say things like, 'no one cares' or 'it doesn't matter.'"

Another insider said, "Slow cultural change and outdated, protectionist business ideas hamper progress, but we have the tools and information to move forward. Just need a groundswell and senior management support to go past the tipping point."

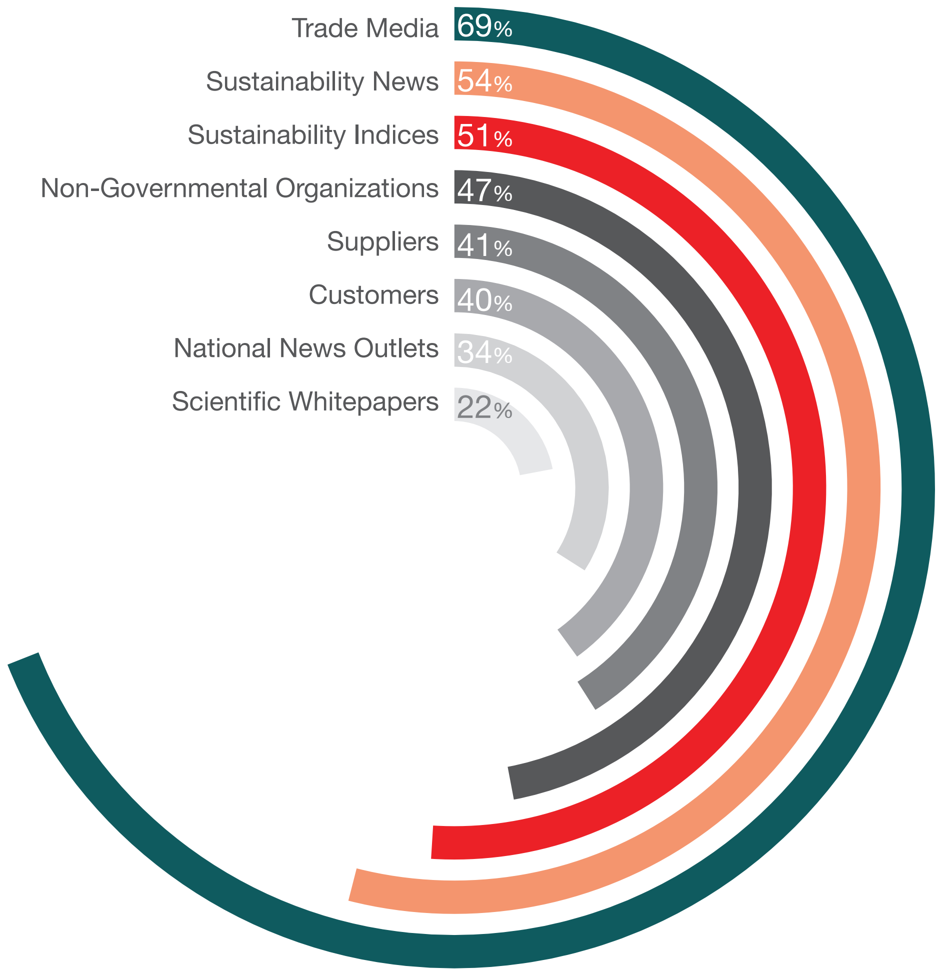
Sustainability and corporate social responsibility are:



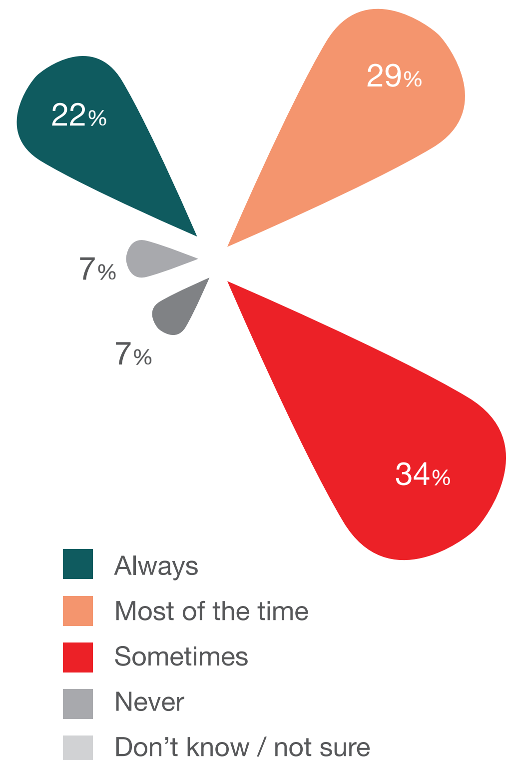
When it comes to developing goals for sustainability and tweaking strategies as necessary, the bulk of the industry turns to trade media to get the latest news. Nearly 70 percent rely on publications like Sourcing Journal and WWD. Fifty-four percent turn to sustainability-focused sources like Ecotextile News and TriplePundit, while a similar number (51 percent) look to sustainability indices like the Sustainable Apparel Coalition and Made-By. Fewer than half rely on NGOs (47 percent), suppliers (41 percent) and customers (40 percent).

Of those who turn to these outlets, only 22 percent always seek to verify the claims made there while 63 percent do at least some of the time. Seven percent never look for additional sources.

The top sources for information on sustainability and environmental news and practices are:



The frequency with which the industry attempts to verify sustainability claims:



SOURCING JOURNAL

CHALLENGES

Though industry experts agree awareness and the practice of sustainability processes have made gains in the last few years, there are still several factors impeding progress.

In fact, 84 percent of respondents recognize the need for their companies to step up their environmental and sustainable initiatives.

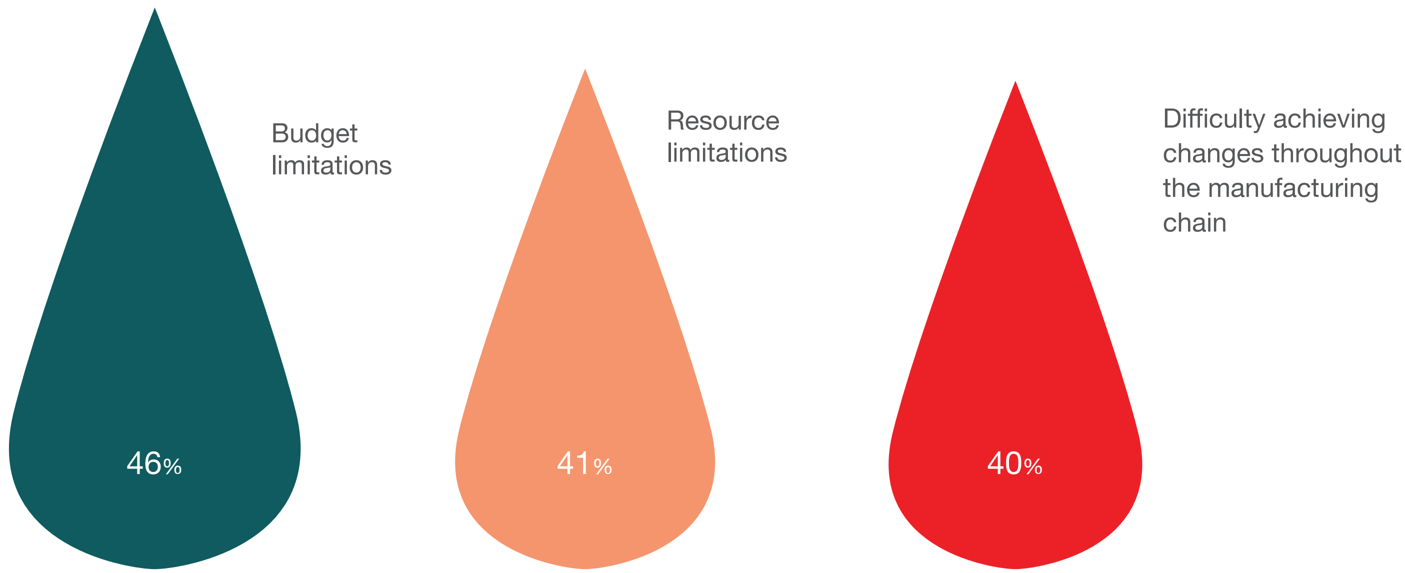
COSTS

When asked what's holding them back, those polled offered up a host of reasons. Chief among them for 46 percent of respondents was budgetary restrictions.

Time and again, those polled indicated that the cost of better practices and materials proves prohibitive in today's climate. "The biggest challenge is getting brands and retailers to make buying decisions based on sustainability status versus strictly price," said one, adding they "talk a good game."

Another said "the biggest challenge is that upfront costs for things

The leading obstacles preventing companies from practicing or increasing their sustainability initiatives:



84%

feel their company should be more sustainable and environmentally friendly like renewable energy and environmentally preferred materials are high—and we can't recover those costs from our customers."

Dickson agrees, saying too often factories and suppliers are expected to foot the bill on their own. "Suppliers have increased costs with retrofitting factories for things like water treatment or buying organic cotton or cotton that's sustainable. There are real costs associated with that and we don't see the willingness from the retailers to pay anything extra for more sustainable products made with more sustainable processes," she said. "What's incentivizing the supply chain to be more sustainable?"

She added retailers and brands are still demanding rock bottom prices as well as compensation when sales don't meet expectations. "The whole financial situation that suppliers are placed under makes it hard to invest in sustainability," Dickson said.

Further, sourcing professionals are rewarded for landing the lowest cost of goods, a system that often undermines sustainability goals.

Pepper said the decision-making process has to change. "When you have that third bottom line. When it's not just all about price but also about quality and other inherent values, then the sourcing agents are rewarded on the fuller picture—that holistic approach," she said.

"This is part of the systemic change that has to happen."

The question though is what's going to force this change?

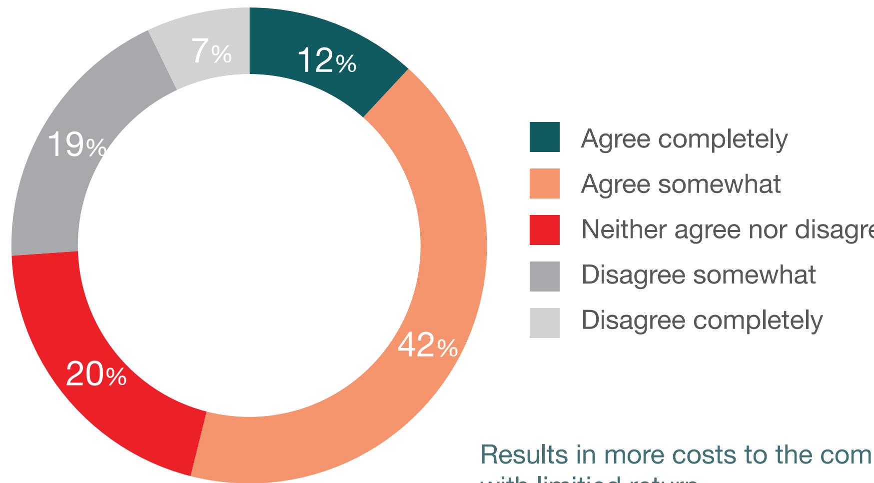
Some respondents suggested companies will only act once consumers apply pressure, but they said that has yet to materialize. "Sustainability increases cost in materials/supply chain and it's close to impossible to get customers to pay for this," one person said.

One fabric wholesaler sees this every day. "Dealing with SMEs we find that though they love our sustainable collections, their end users, the consumers, do have some price resistance."

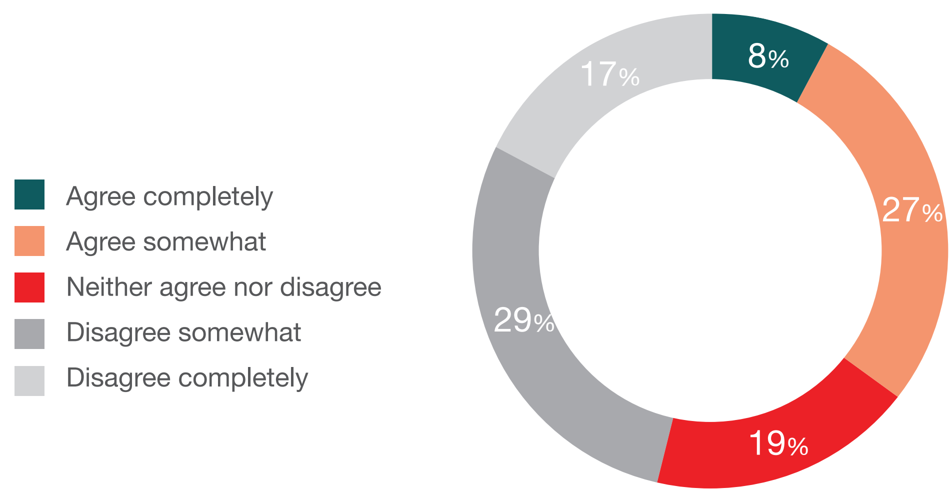
> **"The biggest challenge right now is natural dyeing and its cost. I don't know if I am going to be able to make a profit as the cost of dyeing doubles the cost of the product."**

Practicing sustainability and environment responsibility:

Increases costs to the end consumer



Results in more costs to the company with limitied return



LIMITED RESOURCES

Of those wanting to take their commitment to another level, 41 percent say limited resources are hampering their efforts.

One person cited issues with "finding mills who produce recycled products." Another said, "it's difficult to find U.S. suppliers for items I need. Going overseas defeats the purpose." Still others find it difficult to source the quality goods: "As a retail buyer I have a hard time finding quality clothing materials (fabrics that have a nice 'hand') from companies that use environmentally friendly and sustainable production practices." Echoing that sentiment, another said, "Some sustainable materials do not have the desired final product outcomes."

Pepper said there are more options out there than ever but there needs to be better education so sourcing professionals know where to look. However she said, this is also where forging lasting relationships between brands and suppliers rather than hopping from one to the other, pays off.

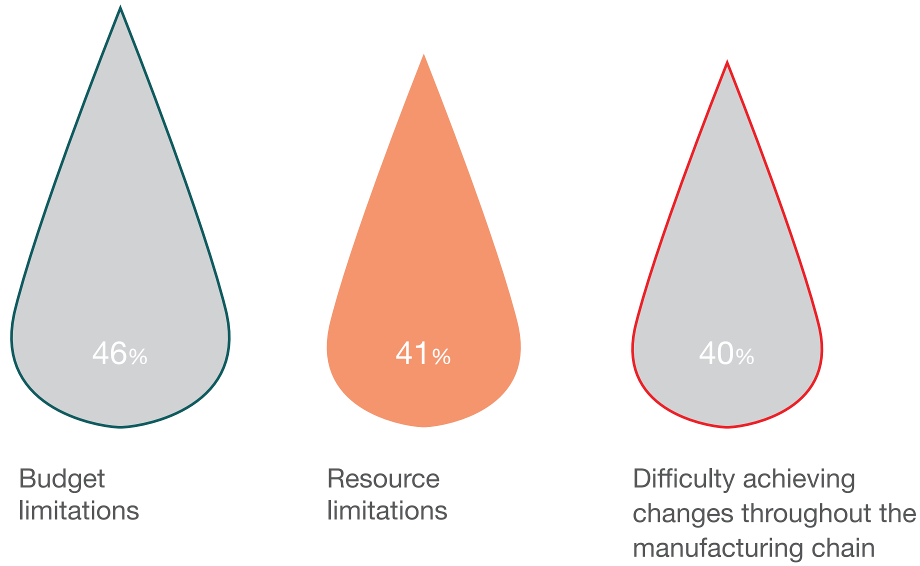
"Companies that have a history of working with mills for 25 years, they can go to them and say, we want to start using a different material, and they'll say sure, we'll figure it out," Pepper said. "That's where we're seeing success stories. It's that level of connection and communication."

Even so, she points out that in this arena it's a matter of supply and demand. To boost the supply, companies must commit to using better raw materials—and they have to make those commitments as early as possible. "You're already planning Fall '19; you should be ordering the cotton for it too," Pepper said, by way of example. "If you want more sustainable materials, you have to make arrangements for it. It's a different mindset. You have to send clear market signals."

She said mills and farmers can't increase their output of these materials until they're sure there's a market for it. As a cotton farmer herself, she can attest that she's not going to produce something without knowing it will sell.

As a sustainability consultant, Artigas echoed the call for unity across the supply chain, saying it's the only way to create a solution. "We have to find the right formula to make sustainable products beautiful, competitive, affordable and convenient, and it takes all of us," she said. "That's why the Sustainable Apparel Coalition wanted to bring everyone to the table to address the agenda at a precompetitive level so we can all benefit from their research."

Leading obstacles:



> **"Footwear doesn't seem to have many options for sustainable materials and processes that don't lose performance. Hopefully there will be more industry standards that will require footwear to explore more options soon."**

THE SUPPLY CHAIN

A collaborative effort is also needed to transform the labyrinth that is the apparel and footwear supply chains. Of those polled, 40 percent say it's too challenging to affect change upstream.

Several respondents noted their companies are actively involved in trying to educate their partners. Ultimately, they report it's "complex" and that information is often "lacking."

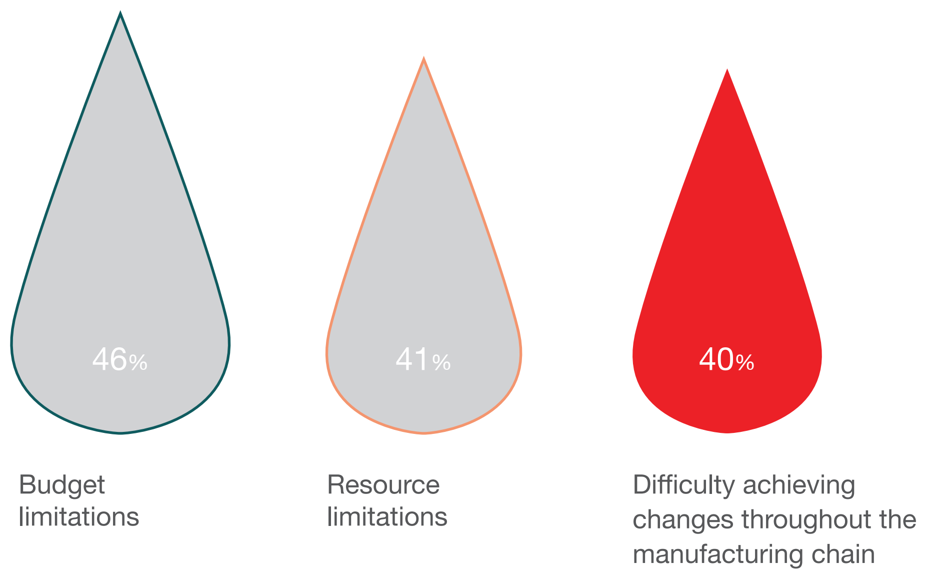
"Awareness in the supply chain is very minimal," said one. "We continue to guide and educate based on our own green initiatives or by retailer-led initiatives. There seem to be no local initiatives in place at the country of origin that compare to what we groom them with."

Another worries about how the countries of orgin see the solutions provided by outsiders. "We have so many answers for so many problems but I am wondering is it really what they want?"

For those factories and suppliers that are educated on the topic, having the brands and retailers involved adds another level of complexity for them, according to Dickson. From her research, she's heard partners upstream saying that what the retailer or brand wants and what the factory or supplier deems necessary in order to make environmental or social change, are sometimes at odds. Each side, she said, is looking at things from the perspective of their own businesses only.

Matters get all the more complicated if the retail and brand side deliver mixed messages. "You'll have the sustainability team talk in one way and merchants in another," Dickson said. "[Suppliers] say when you have these competing teams talking, each with a different focus and initiatives, you can run into the problem of whose goals matter. There's no shared and collaborative goal setting in the industry."

Leading obstacles:



> **"The bottom line is it's expensive to implement sustainability throughout the supply chain. Until all the company's competitors are implementing it, it is not a high priority. Prices will either go up or the company will suffer a loss."**

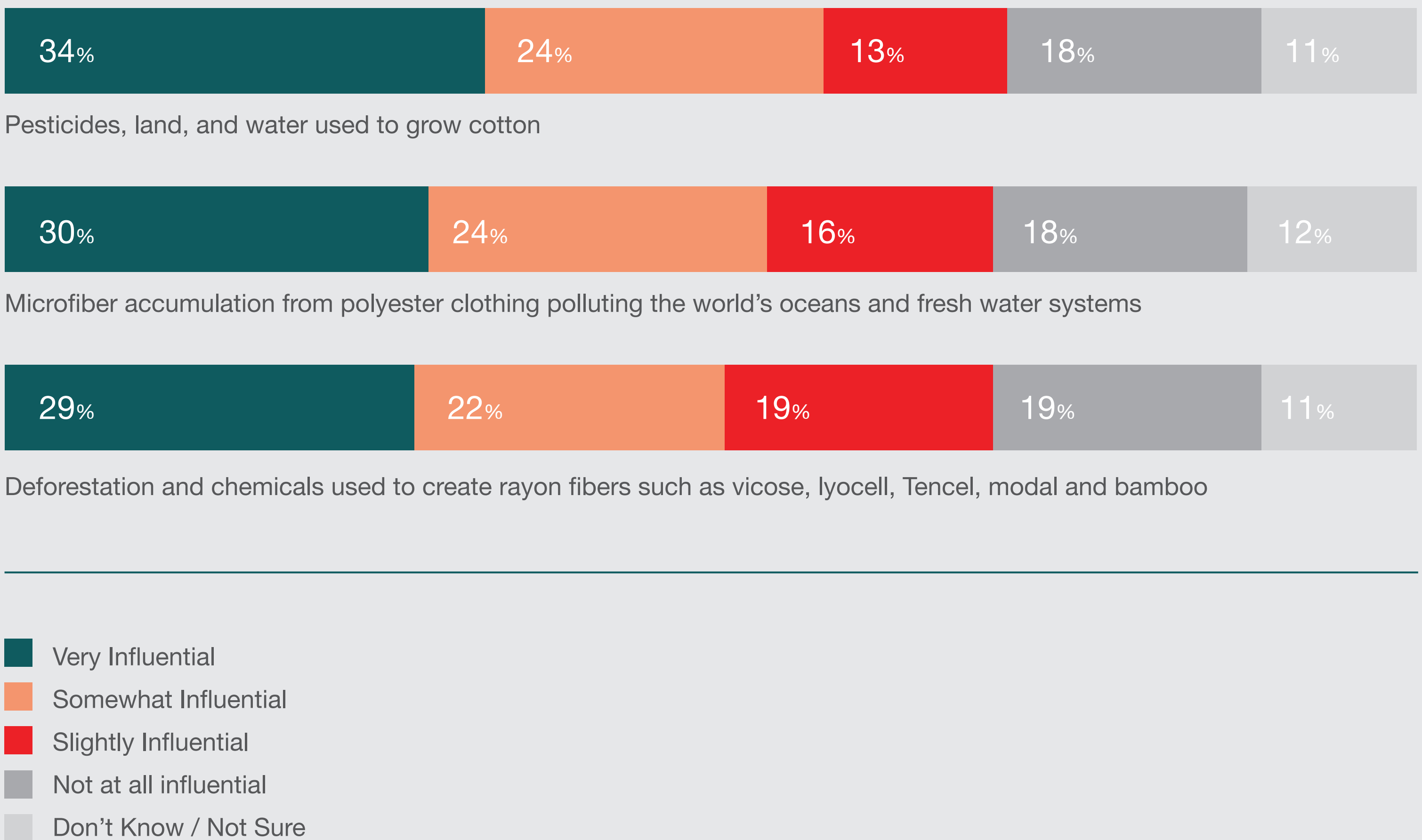
FIBER & SUSTAINABILITY

Sustainability is a broad term with varied meanings throughout the industry. For some, it relates specifically to environmental concerns while others incorporate worker health and wellbeing into the equation.

Even looking specifically at the industry's effect on the planet and its natural resources, each business weighs concerns differently. For instance, 71 percent of respondents say their initiatives relate to pesticide, land and water usage in growing cotton. Seventy percent are influenced by the accumulation of microfibers as a result of polyester clothing in our water, while 70 percent have taken deforestation and chemical uses related to rayon fibers into consideration.

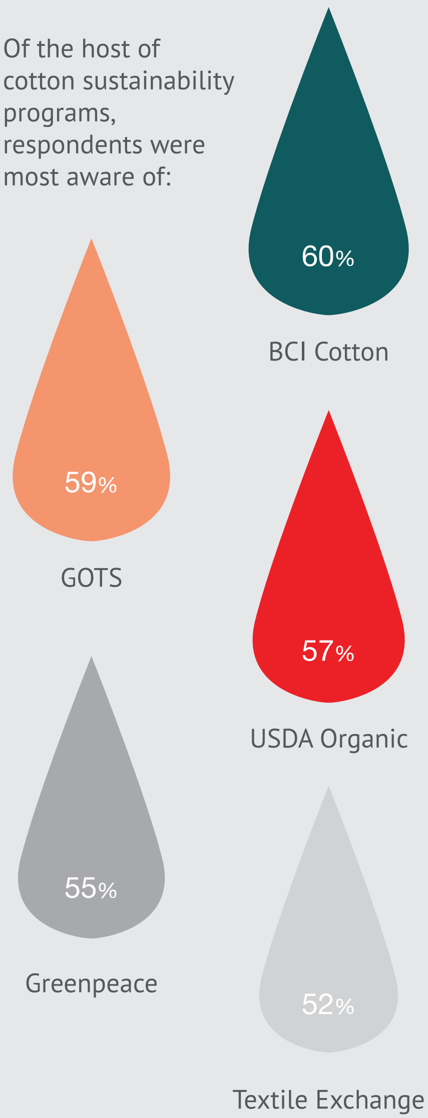
Of the host of sustainability programs that serve to benchmark, educate and police the industry's practices, some are more well-known than others, with some in particular held in high regard. In the cotton arena, BCI Cotton, GOTS, Greenpeace and Textile Exchange are the leading authorities in both name recognition and achievements.

The fiber-related issues that are most influential in shaping companies' sustainability programs:

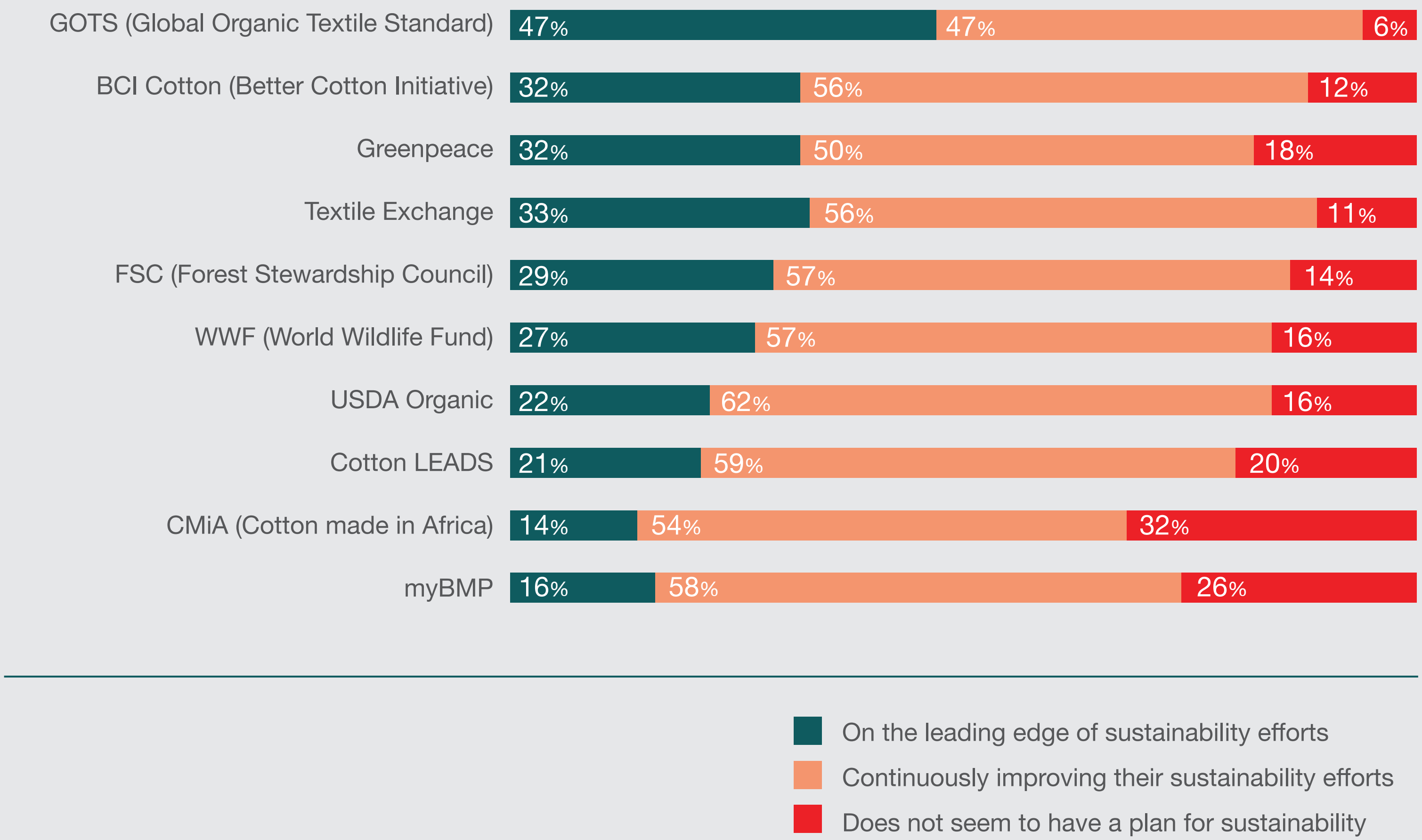


FIBER & SUSTAINABILITY

Of the host of cotton sustainability programs, respondents were most aware of:



Perceptions of cotton sustainability program efforts*:



*Of respondents that demonstrated awareness of these programs.

CONSUMERS

Consumer pressure ranked just below internal decision makers, personal motivation and the supply chain with 86 percent of respondents deeming it an influence on how their companies make decisions related to the environment and sustainability. Investors (62 percent), government agencies (70 percent) and non-governmental organizations (69 percent) held less sway.

Given the power of consumer opinion, respondents noted the industry needs to do a better job of galvanizing the public in support of sustainable practices.

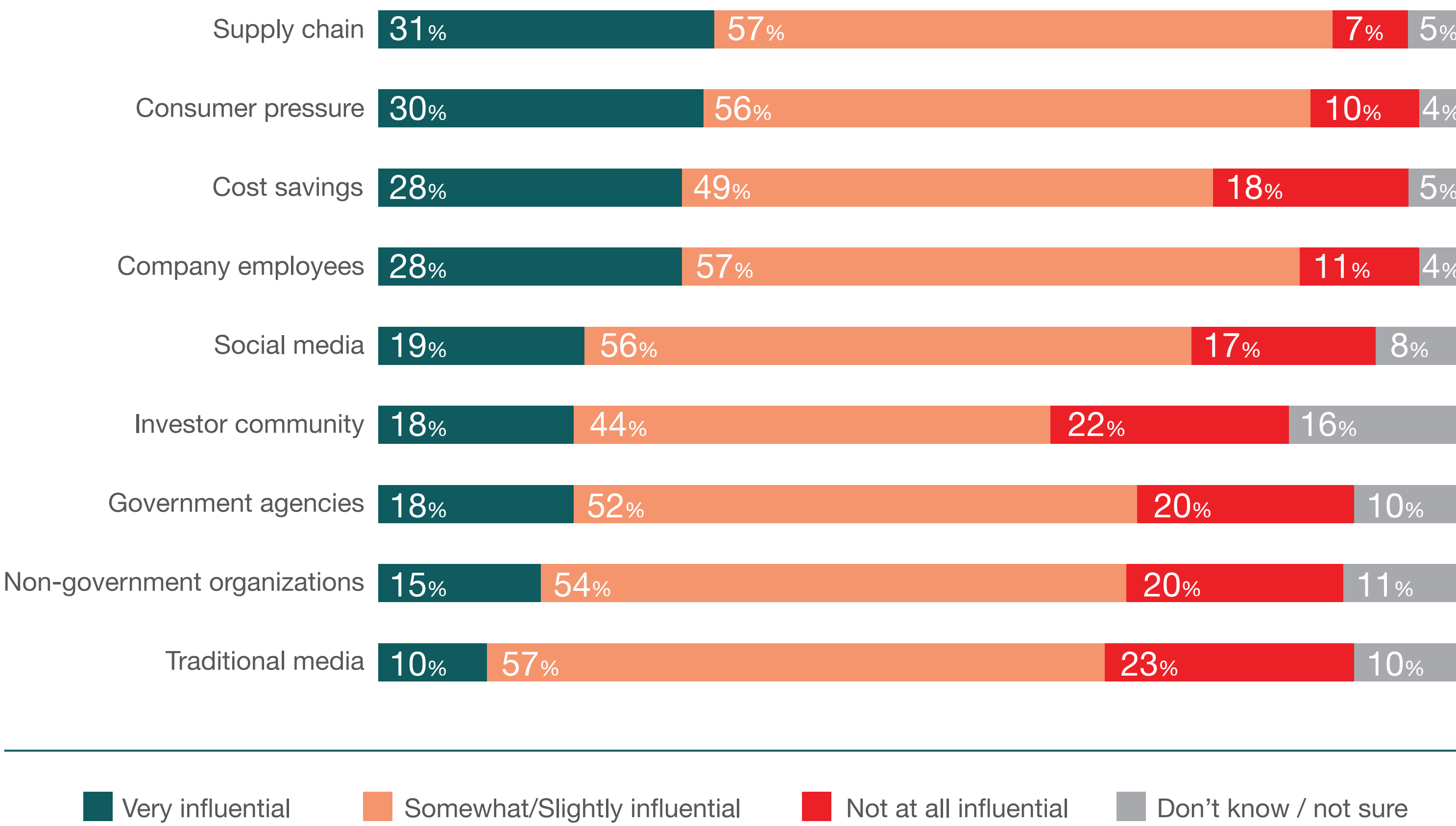
One industry insider said consumers must be retrained. "The biggest challenge in sustainable fashion is convincing customers they need to pay more and buy less clothing, but buy clothing that's made better. The race to the bottom has made clothing unrealistically cheap and unappealing."

Another said this industry needs to take a cue from another. "If as an industry we can get consumers to care as much about where their apparel comes [from] and how/who made it as where their food comes from, sustainability will take a much higher priority for every brand," they said.

The leading factors influencing companies' environmental and sustainability decisions:

91% Consider internal decision makers to be influential

91% Consider personal motivation to be influential



In fact, Dickson said she wonders why some companies that are doing what she considers "wonderful things" in this space won't tout them more. She noted that big brands like Nike have the deep pockets and storytelling know-how to create powerful campaigns but they haven't opted to focus on this area. "There's not been a concerted effort to advertise to make customers desire sustainable products," she said. "The smaller brands focused on sustainability make that central to their story but big brands and retailers, their communications are primarily through their websites for those who care to dig in for the details, but that's not advertising or marketing to the customer. There's a big opportunity there."

Only 64 percent of survey respondents felt that sustainability factors into their company's marketing efforts.

One supplier who took the survey said it's an area in which the industry needs to improve. They said although they offer sustainable products there's often no messaging around it. "Convincing brands and organizations in contact with end consumers to include sustainability as a key part of the promotion of their products" is a big challenge, they said.

Another respondent admits this is a shortcoming for their company, saying "Marketing and PR is actually our weakness, since we walk the walk but don't talk about it. We may be the only ones who don't do it the other way around."

Artigas said that even the small amount of marketing that's happening isn't as effective as it could be because the messaging is wrong. "The audience shuts down if they hear only the problem. We really need to share the solution. We witnessed this with TOMS," she said, referring to the brand known for its buy one/donate one concept. "They really understand that people want to be part of the solution and support each other."

64%

Feel sustainability factors into their company's marketing efforts

> "It is very much an uphill battle to convince a consumer that they should want to pay quite a bit more for sustainable materials."

Only 53 percent of those surveyed say their company's sustainability efforts are included in their key performance indicators. Further, nearly 1 in 5 said their companies don't measure the success of their sustainability efforts at all.

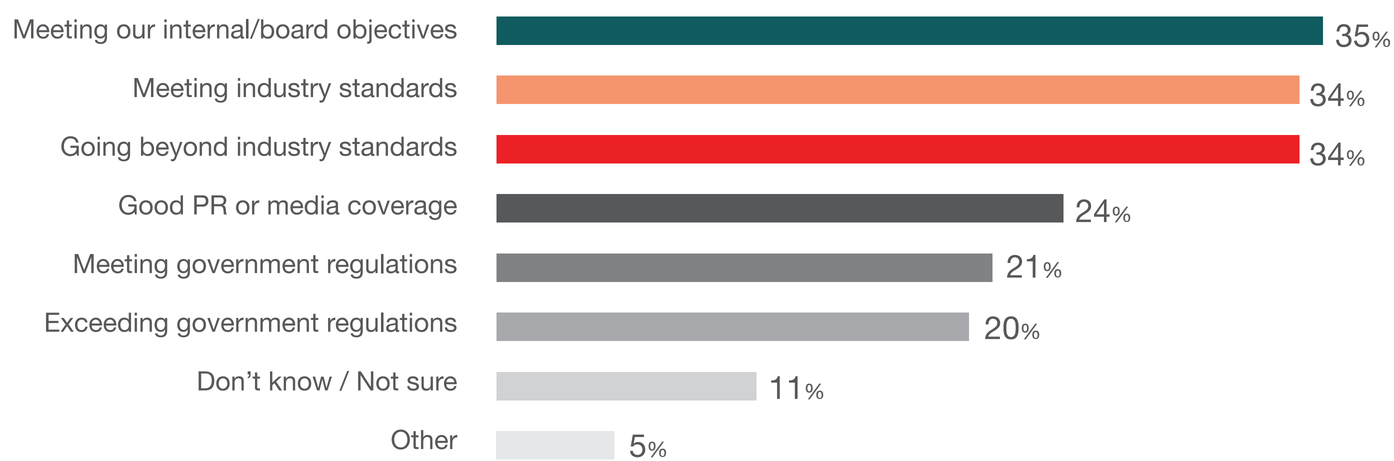
Of those that do, these initiatives are primarily judged on internal/board objectives (35 percent), whether they meet industry standards (34 percent) and if they're exceeding industry standards (34 percent).

My company's environmental and sustainability goals impact our success.

How sustainability success is measured:

23% Measure based on sales or monetary return on sustainability investment

1 in 5 Have no measurement for success



CONCLUSION

With the leadership of a few key brands and retailers and the support of likeminded organizations, the industry is evolving to adopt more sophisticated ways of addressing environmental issues.

Overall however, it seems like progress is coming too slowly for some professionals who work along the supply chain. Those surveyed feel hampered by the need to minimize costs, the inability to source the best materials and the lack of transparency clouding the whole picture.

Further, many of them are looking for a more top-down approach to the issue, while others are calling for a clear, singular resource designed to disseminate information to all tiers and channels.

"I think the toughest part of sustainability is training the core supply chain that services the brands and retailers," one respondent said. "It is very complex and [there are] so many companies involved to filter and communicate the proper information throughout the supply chain in order to educate in the most thorough and responsible way."

Complicating the matter further is that the more aware the industry becomes, the more it becomes evident that there's much work to be done.

In fact, some are already looking ahead to the next stage. "A word you'll hear a lot now is regenerative," according to Pepper. "Sustainability is just trying to maintain the status quo or do no more harm that we are already doing. It's not enough to stop polluting and stop throwing dyes in the water. We need to clean up the rivers. We need to put in healing practices."

METHODOLOGY

Sourcing Journal surveyed 570 people across the apparel, accessories and footwear industries on their views about sustainability, how their companies are progressing in terms of product and processes and the challenges the entire market faces in its attempt to be more responsible. The online survey was conducted from April 2, 2018 to April 27, 2018. The participants were recruited through email invitations that were sent to the Sourcing Journal readership as well as ads that appeared on the company's website. A sweepstakes to win a $500 gift card was used as incentive.

About a third (32 percent) work in fashion brands, while 15 percent are employed by retailers, 13 percent by suppliers and 8 percent factories. The majority (76 percent) work for businesses that offer apparel, 38 percent accessories, 34 percent shoes, 30 percent textiles, 20 percent fabrics and 13 percent raw materials.

The majority of the respondents (76 percent) were in management positions, with 54 percent in C-level/top management roles. The respondents were involved in all facets of product development (33 percent), sourcing (32 percent), sustainability/CSR (25 percent), production (22 percent), supply chain (22 percent), R&D (20 percent) and marketing (21 percent) roles.

COTTON INCORPORATED

Cotton Incorporated is the research and promotion company for U.S. cotton growers and importers. Established in 1970 as a not-for-profit company, our mission is to increase the demand for and profitability of cotton. The company fulfills this straightforward mission by identifying efficiencies and best-practice opportunities along each link of the global cotton supply chain, and through global marketing efforts aimed at consumer and trade audiences. All of these activities are designed to help cotton businesses thrive.

As a research company, Cotton Incorporated conducts between 400 and 500 projects each year. These include: best practices at the farm level; fiber processing efficiencies and troubleshooting; the creation of new and exciting textile chemistries for cotton apparel and home textiles; nonwoven innovations; product testing; market research and analyses; compelling television, print and digital advertising; and dynamic events in collaboration with brands and retailers.

Cotton Incorporated is dedicated to providing research and intelligence to the global cotton industry. As such, the company has offices in strategic textile centers around the world: Hong Kong, Mexico City, New York, Osaka and Shanghai, with the World Headquarters based in Cary, North Carolina. The Cary facility is a state-of-the-art research center that serves as a working laboratory for textile processing; dyeing and finishing; and fabric development.

The company's scientists and researchers perform or oversee the development of innovations in agricultural practices, fiber processing and analyses, textile chemistry, spinning, weaving, and fabric engineering; and provides in-depth crop, market and consumer marketing analyses to stakeholders. The company also creates and disseminates seasonal surface and color trend directions, and actively researches commercial product uses for the entire cotton plant.
Cotton Incorporated is also a leader in sustainability. It was instrumental in the first ever life cycle assessment of cotton fiber and fabrics, as well as an update to the initial findings. The company is an active member in a range of cotton and sustainability organizations such as Cotton LEADS, the Better Cotton Initiative; Field to Market; the Sustainable Apparel Coalition, to name a few.

Cotton Incorporated is a partner to cotton businesses, large and small; from family farms to global apparel brands and retailers. This level of industry support has helped to form the company's global reputation as an authority and resource for the industry.

Cotton Incorporated