

***Risks and Rewards of Sourcing
Cotton for the Retail Market
&
What Should Keep US Cotton
Industry Leaders Up at Night***

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USDA Outlook Forum
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Key Challenges for the Cotton Industry

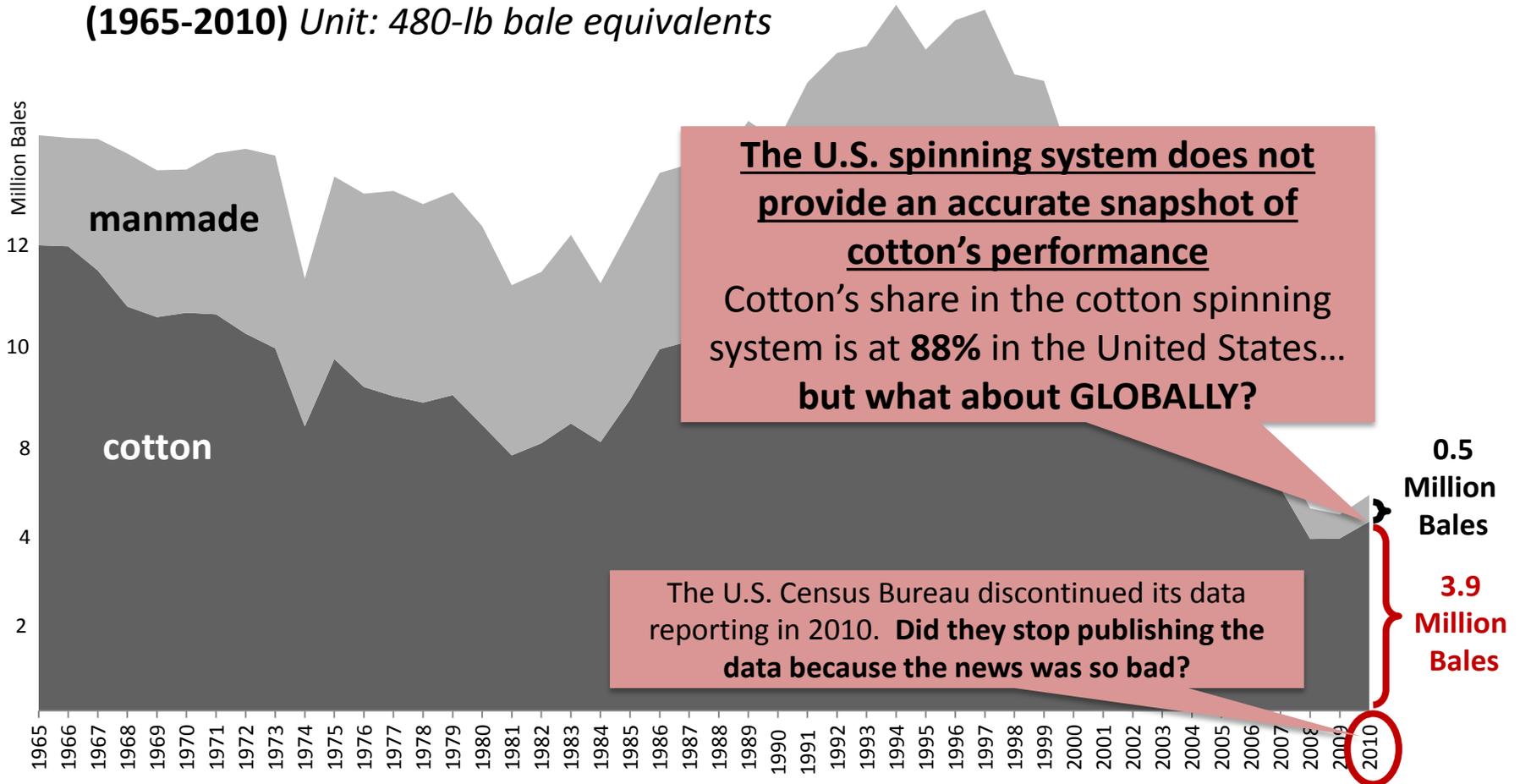
- ✓ The biggest customer—China—has been actively discouraging the use of cotton
- ✓ The (misguided) customer perception that cotton is environmentally UNFRIENDLY
- ✓ Industry mistakenly equates brand recognition with brand efficacy
- ✓ Tendency to be focused on volume rather than value

SOLUTION:

CHANGE ATTITUDES and BECOME OBSESSED with customers' needs.

The U.S. cotton industry often uses the **WRONG DATA SET** to evaluate its performance

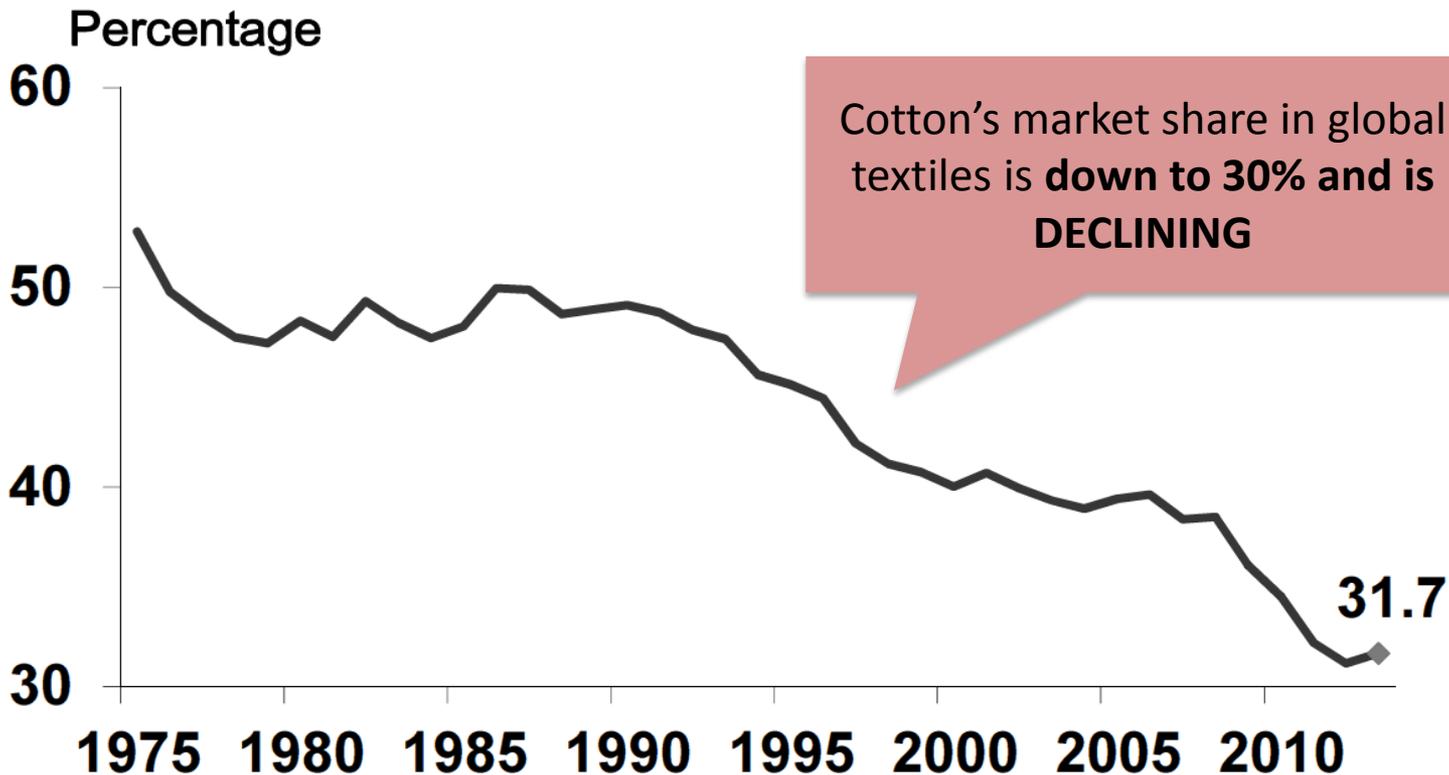
Cotton and manmade staple fibers: Mill use on the cotton spinning system (1965-2010) Unit: 480-lb bale equivalents



Source: USDA Cotton and Wool Yearbook http://www.ers.usda.gov/datafiles/Cotton_and_Wool_Yearbook/Table27.xls

The GLOBAL MARKET is what MATTERS

Market Share of Cotton in World Textile Fiber Consumption



Source: Au, *World Cotton Situation Outlook for 2012/13 and 2013/14*, April 16, 2013 ICAC Conference

China adopted a national policy that discouraged the use of the cotton and encouraged the migration to petroleum-based fibers

- In 2013, the Chinese government set cotton prices at 20,400 RMB/ton (\$1.52/lb)—this is 168% of the world price (90 cents/lb).
- This higher cotton price in China means that **all low-value apparel produced in China** will NOT be cotton, but **made from man-made fiber**.
- China mills can import YARN, but not FIBER. This **further discourages use of cotton for low-value apparel products in China**.



中文简体 | 中文繁体 | ENGLISH

HOME About CNCRC Business and Services News

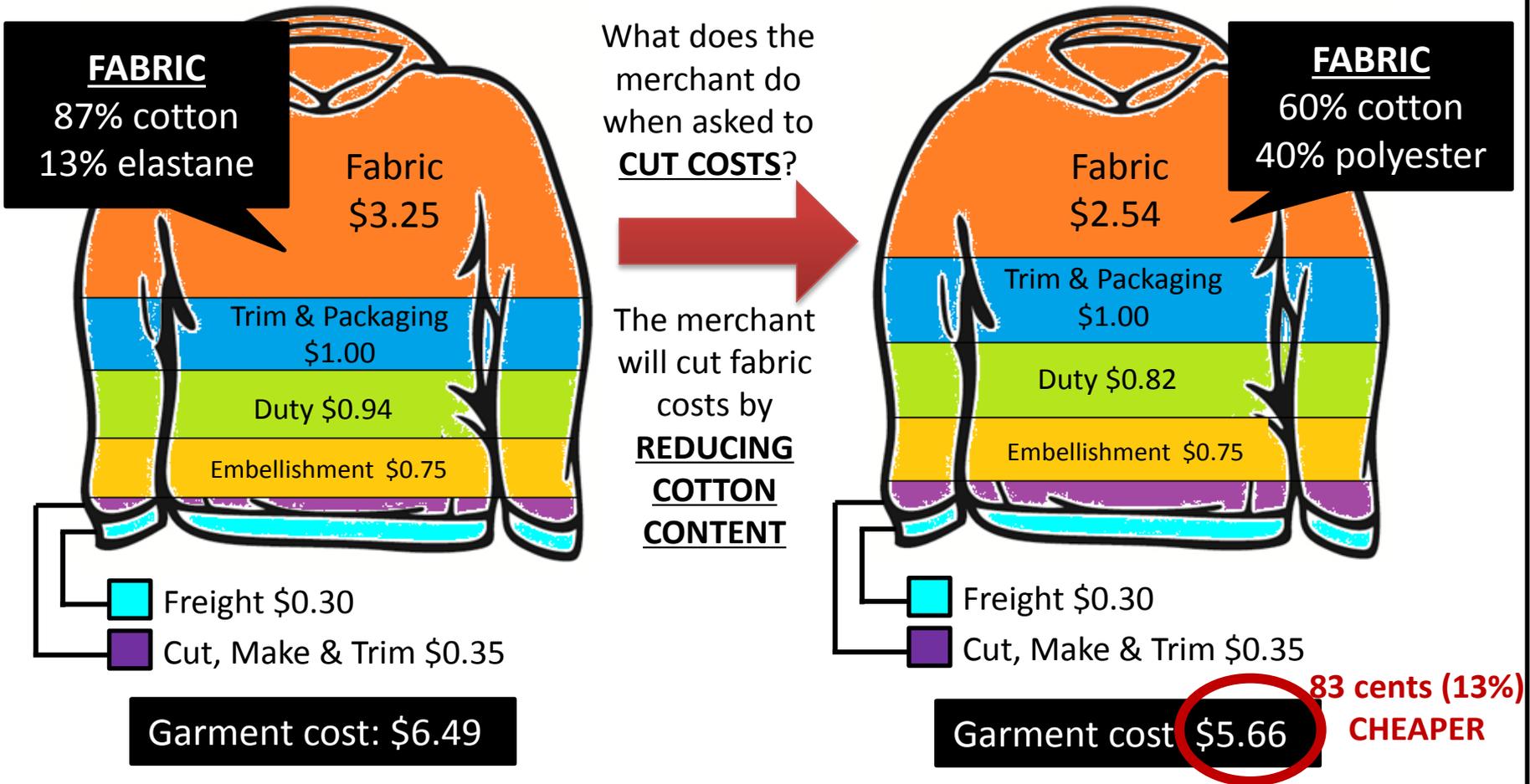
Security and stability

In the first 8 months of the 2011-12 season, the Chinese National Cotton Reserve Corporation (CNCRC) accumulated over **3 MILLION TONS** of domestic cotton and at least **1 MILLION TONS** of foreign cotton, **UP 61%** from 2010-11.

The image shows a screenshot of the CNCRC website. At the top is a green navigation bar with the text "HOME About CNCRC Business and Services News". Below this is a banner image showing two men in green work clothes and hard hats standing in a warehouse filled with large bales of cotton. The text "Security and stability" is overlaid on the right side of the banner. A red callout box on the right contains the text: "In the first 8 months of the 2011-12 season, the Chinese National Cotton Reserve Corporation (CNCRC) accumulated over 3 MILLION TONS of domestic cotton and at least 1 MILLION TONS of foreign cotton, UP 61% from 2010-11."

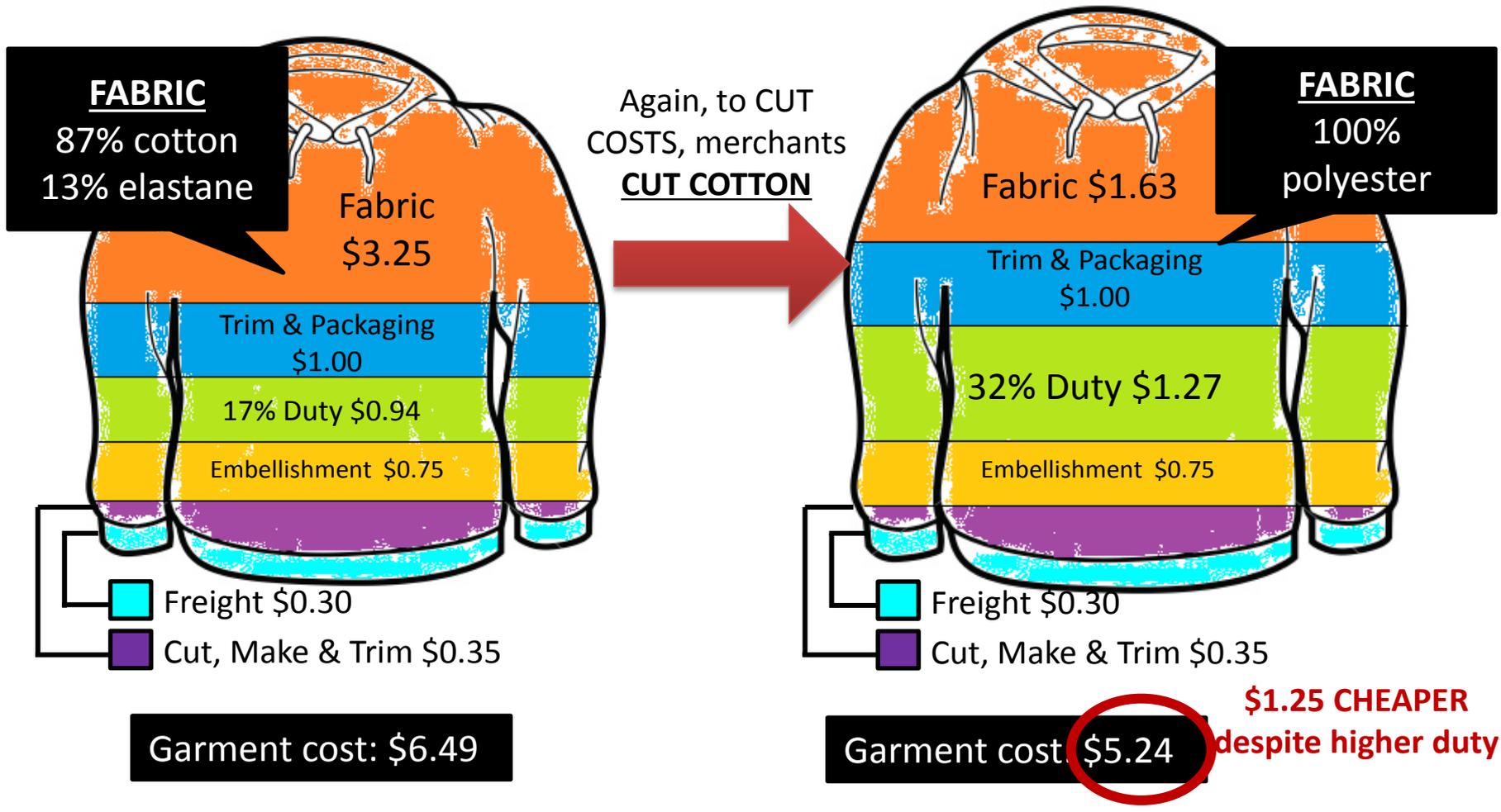
When looking to **CUT BACK** on **COSTS**, the first place the production team looks to save money is the **FABRIC COST**—the single biggest cost component in production of a garment

Example: heavy weight sweat shirt



The allure of fiber substitution—a strong financial incentive to USE LESS COTTON.

Now let's look at what happens when the production team CUTS OUT COTTON altogether—garments are 20% cheaper despite higher duties for MMF.



Brand Recognition ≠ Brand Equity

Being a household name does NOT mean customers will pay a premium for your product. Examples: SEARS, K-MART, Levi's



1996

- 63 U.S. manufacturing plants
- 37,000 employees
- Revenues = \$7.1 billion

- ✓ Not focused on younger customers or inventory controls
- ✓ Not fashion oriented
- ✓ Focused on large-scale production rather than flexible production
- ✓ Did not innovate - it didn't think that it was important - after all, Levi's was the world's biggest, most recognized brand

10 YEARS LATER...2005

- No U.S. manufacturing plants
- 9,635 employees
- Revenues = \$4.1 billion

- ✓ Youth market brands (Wet Seal, TOO) took away new customers
- ✓ Designer jeans cut into their market share at the higher end in Department stores (Calvin Klein, POLO)
- ✓ Specialty Mass Merchant Private labels (Wal Mart's Faded Glory, J.C. Penney's Arizona) created new price pressure
- ✓ Retailers (GAP, American Eagle, A&F) further eroded market share

Now let's look at Cotton—where is cotton at today?

Retailers are telling production to use as little cotton as they can get away with to bring the cost down. The end customer doesn't care. So why should the retailer?



Amazon search for "men's contemporary clothing"

Department: Clothing & Accessories · Men · Active · Amazon.com · Advanced Search

Showing 1 - 48 of 2,251 Results

Choose a Style: Contemporary | Classic | Streetwear | Surf & Skate

International shipping: AmazonGlobal Eligible

Brand: 201st, 20U, 3d, 66 Norm, Acorn, AIGAI, AIGAI, AIGAI

Color: [Color selection]

Special Sizes: Big & Tall

avg. Customer Review: [Review stars]

Price: Under \$25, \$25 to \$50, \$50 to \$100, \$100 to \$200, \$200 & Above

Discount: 10% Off or More, 25% Off or More, 50% Off or More, 70% Off or More

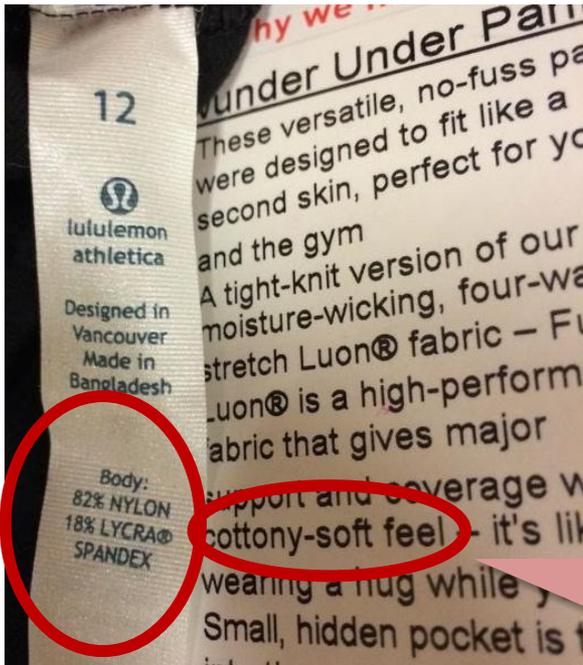
Seller: Amazon.com, Alltrac, Backcountry, Backcountry.com, Department Of Goods

Product	Material
Champion Men's Double Dry Training Tee	polyester
Champion Men's Jersey Pa...	COTTON
Injinji Performance Original Weight Micro Toesocks	Coolmax/ Nylon/ Lycra
Champion Men's Long Mesh Short With Pockets	polyester
Russell Athletic Men's Basic Cotton Tee	COTTON
Columbia Sportswear Men's Tamiami II Long Sleeve Shirt	polyester
Hanes Classics Men's 6-pack Cushion Extra Low-Cut Socks	Cotton & polyester
Russell Athletic Men's Dri Power Crewneck Sweatshirt	Cotton & polyester
Champion Men's Double Dry Training Short	polyester
Russell Athletic Men's Cotton Muscle Shirt	Cotton & polyester
injinji Performance Mini Crew Toesocks	Coolmax/ Nylon/ Lycra
Champion Men's Double Dry Training T-Shirt	polyester

Some top sports brands seem to have abandoned cotton

Today it is hard to find ANY 100% cotton garments at an ADIDAS or PUMA store

lululemon  athletica



Lululemon's signature fabric "Luon" has **NO COTTON IN IT**, but aims for a "cottony-soft" feel

Tag from *wunder under pants* made from Full-On Luon®

 **ATHLETA**



**Polyester/
Spandex**

Retreat Print Chi Tank Extra Long
\$44.00



**Power Pilayo®
(Supplex® Nylon /
Lyca® Spandex)**

Drifter Tight
\$69.00



Under Armour no longer denigrates cotton, but it uses very little of the fiber.

If customers consult the web for information about COTTON VS. POLYESTER, the search results are NOT encouraging

Google Cotton vs. Polyester

Web Shopping Images News Videos More Search tools

About 4,090,000 results (0.24 seconds)

[Whats the difference between polyester and cotton? - Yahoo Answers](#)
answers.yahoo.com › ... › Home & Garden › Cleaning & Laundry
Jun 28, 2009 - Does polyester clothing lose color or shrink? ... last longer, how many jeans do you have from the 80's versus poly pant left over from disco!

Polyester vs cotton sweater?	7 answers	Oct 11, 2013
Difference with Polyester Vs.Cotton?	1 answer	Feb 8, 2013
Polyester vs Cotton...?	3 answers	Jan 20, 2013
Cotton vs. polyester?	2 answers	Dec 6, 2007

[More results from answers.yahoo.com](#)

[Cotton Vs Polyester. What Should I Choose? - Top Dog Screen ...](#)
www.topdogapparelinc.com/.../cotton-vs-polyester.-what-should-i-choos...
Nov 15, 2013 - When choosing a garment to decorate, our customers are continuously asking "What is the difference between cotton and polyester, and what ...

[Is Cotton Better Than Polyester? - Ask.com](#)
www.ask.com › Q&A › Business › Advertising and Marketing
... terms of retaining heat. Cotton has a high rate of durability unlike polyester, Cotton tends. ... What Is Better Polyester or Cotton Bedding? ... Cotton Vs Polyester.

[Polyester: Breathability vs. Wicking? - Style Forum](#)
www.styleforum.net › Forums › Men's Style › Classic Menswear
Jul 17, 2007 - 15 posts - 14 authors
But if polyester is so unbreathable is the trade-off for wicking worth it? Should I be looking at polyester undershirts that wick rather than cotton ...

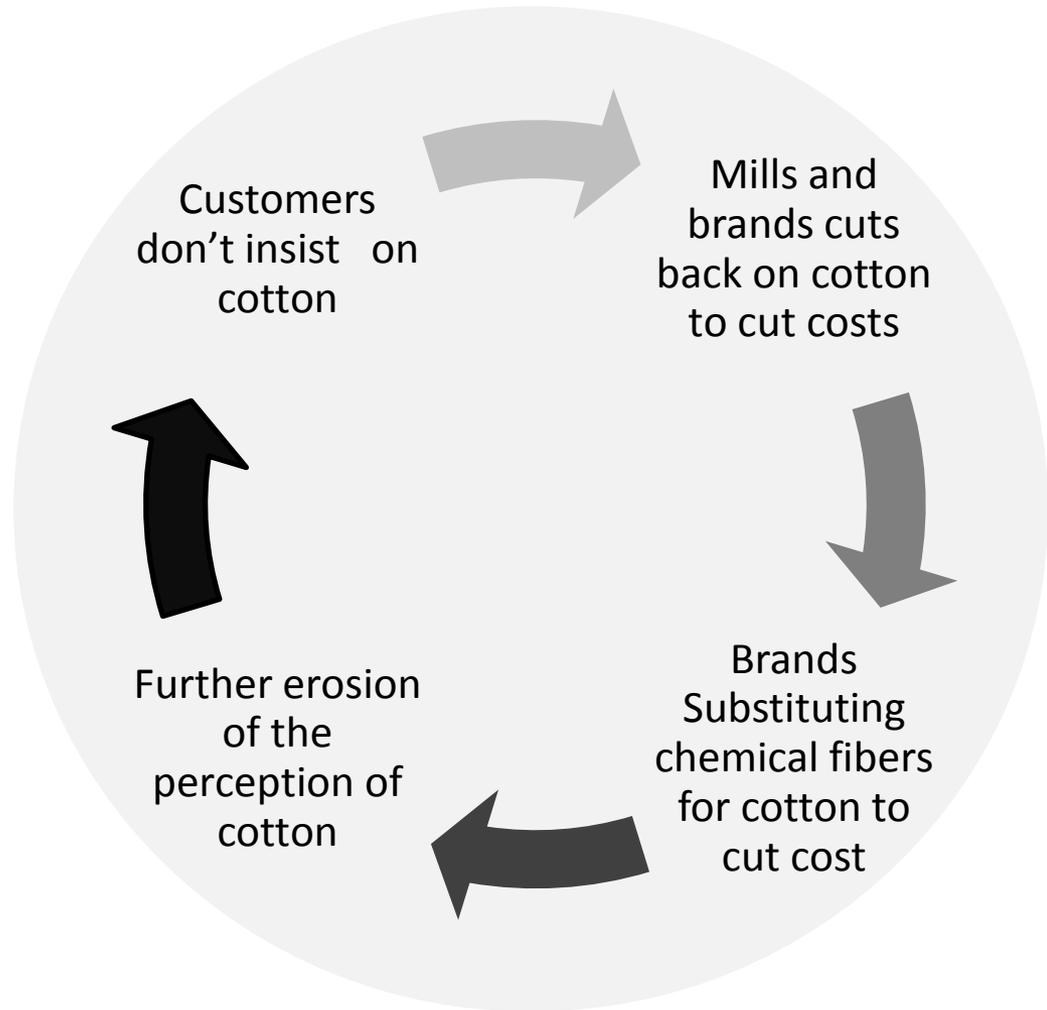
The cotton industry needs to focus MORE on VALUE, NOT VOLUME. End the Commodity mentality.

For generations **focused on yield—bales per acre—not price per pound.**

This had led to a downward spiral for the cotton industry.

That needs to change. High quality cotton is always in demand.

Just look at the top end sports apparel
Lululemon—almost no garments are made from 100% cotton.



Many customers believe that cotton is environmentally UNFRIENDLY—and some of the best known brands (in this case, H & M) have reinforced these views

Challenges in the life of a T-shirt...

...and ways to tackle them

10% of all pesticides in the world are used in cotton production.

Conventional cotton used in a T-shirt needs as many as 15 bathtubs of water to grow.

4 m² of agricultural land has been used. The space required to produce 100 T-shirts is enough to grow 700 kg of potatoes.

36% of its climate impact occurs when it is washed and tumble-dried at home.

5% of all waste in US landfills is textiles. Enough to fill 32,750 Boeing 747s.



Choosing organic cotton means zero pesticides.

H&M's current organic and Better Cotton usage means over 140,000 kg fewer pesticides used in 2012 alone.

Better Cotton requires 20% less water.

Recycled materials do not need to be grown on any agricultural land.

Switching from 60 to 40 degrees when washing saves 41% of the energy used. With an average of 3 wash loads per week, German households could save more than 440 million euros each year.

95% of all textiles can be recycled.

H&M CONSCIOUS ACTIONS SUSTAINABILITY REPORT 2012

Source: <http://about.hm.com/content/dam/hm/about/documents/en/CSR/reports/Conscious>

Another example: Nordstrom's organic cotton brochure

Cotton is woven THROUGH your WORLD

...forming half the globe's textile sales. Most cotton is not as environmentally benign as you might expect.

Conventionally grown cotton consumes approximately 25% of the insecticides and more than 10% of the pesticides used in the world.

Conventional farming devours roughly a third of a pound of pesticides and fertilizers to produce enough cotton for a single T-shirt.

The production of cotton has a huge impact on the world you live in.



SPECIAL THANKS TO:
Organic Exchange
Organic Trade Association
Sustainable Cotton Project



Cotton touches you in many WAYS

Most cotton is not as environmentally benign as you might expect

...the quality of the product from

...your skin-

PRODUCTS:

...tampons, ...
Home fashions, such as bedding, towels, cushions and curtains.

Organic cotton is in many PLACES:

- At your local stores, from small boutiques to major retailers
- By mail order or on the web.
- Find sources for organic cotton products at www.AboutOrganicCotton.com.

HELP Organic Farming grow:

- Buy organic cotton whenever possible.
- Ask for it where you shop.
- Tell your friends about it and where they can find it.
- Educate yourself about organics.
- Buy organic foods.

And DON'T FORGET to:

- Donate your used clothing to a good cause.
- Use environmentally friendly detergents and body care products.
- Save electricity—hang your clothes to dry.

www.AboutOrganicCotton.org

This pamphlet is printed with vegetable-based ink on 50% post-consumer recycled, 50% recycled, processed chlorine-free paper.

ORGANIC COTTON



Cotton is woven THROUGH your LIFE

...in the thick, thirsty towel that dries you after your morning shower...



...in the favorite T-shirt and worn-to-perfection jeans you pull on, eager to start your day...



...in the personal care products you use, such as swabs, pads, and tampons...

...in the absorbent diaper that keeps your baby comfortable...



...cottonseed oil is in the snacks you munch on ...

...and in the feed given to livestock that nourishes you...



...cotton makes the sheet you slip between at the end of a full day...



...and the pillowcase that cradles your head for sweet dreams...



More chemicals are NOT THE ANSWER

Chemicals give cotton a BAD NAME.

Cotton is seen by more affluent customers as linked to chemicals in production (pesticides) and processing (water and chemicals) and now in finishing (coatings). Some, especially chemical manufacturers, think that the cotton industry strategy is MORE CHEMICALS, therefore DEEPENING this negative image.

End users have abandoned environmentally unfriendly and cruel practices. The cotton industry needs to wake up and move on.

- **THE WOOL INDUSTRY:** Mulesing is a cruel practice that is rejected by customers. Not a single U.S. brand wants to be associated with Australian wool.
- **THE COTTON INDUSTRY:** End users have abandoned harmful chemicals. Cotton producers need to understand that they have **LOST THE BATTLE ON TOXIC CHEMICALS.**

Is the cotton industry ready to adapt to the rising customer resistance in chemicals? Brands are...

Toxic Threads: The Big Fashion Stitch-Up

How big brands are making consumers unwitting accomplices in the toxic water cycle

GREENPEACE

Table 1. The number of samples in which NPEs, phthalates and cancer-causing amines released by certain azo dyes were identified. Results are shown by product brand, with the percentage of positive results for each brand.

	No. of samples	No. tested positive NPEs	Percentage of samples tested positive per brand - NPEs	No. tested positive phthalates, 0.5% by w
GIORGIO ARMANI	9	5	56%	1
benetton	9	3	33%	
bložek	4	2		
CSA	6	5		
Calvin Klein	8	7		
DIESEL	9	3		
ESPRIT	9			
GAP	9	7		
H&M	6	2	33%	
JACK & JONES	5	3		
Levi's	11	7		
MANGO	10	6		
M&S	6	4		
Metersbonwe	4	3		
ONLY	4	4		
PRADA	9	6		
VANCL 凡客诚品	4	4		
VERO MODA	5	4		
VICTORIA'S SECRET	4	2		
ZARA	10	6		

How will the cotton industry adapt to THIS change?

Greenpeace issued its "Toxic Threads" Report in November 2012 targeting chemicals used in major clothing brands.

Many brands have pledged to zero discharge of hazardous chemicals from its ENTIRE supply chain. This pledge will require drastic changes in the use of chemicals that are widely used to treat cotton textiles.

Without these chemicals, some processing cannot be done on cotton. Is the cotton industry ready with GREEN substitutes?

Don't be in denial and stay happy with the status quo. Be LEAN, MEAN and LOOK TOWARDS WHAT IS NEXT

Arrogance and denial will lose you the lead. Look at Blackberry. Forrester Research industry analyst Ted Schadler says former co-CEO Mike Lazaridis missed many boats:

"I just remember standing up in front of their analyst meeting, with holding my little iPhone in 2008 going: So, Mike, what are you going to do about this computer that I'm carrying around in my pocket?"

*And he just basically laughed me out of the room. He was like: **What are you talking about? Nobody cares about that.** Like, yes, they do. It's a computer. It does everything. I can get on the Internet right here. Look. **And he was like, yeah, that's not what we do.** Like, well, boy. Then you're going to be in trouble."*

What is the cotton industry's trump card?

The **DIRTY SECRET** that no one will address is this—
CUSTOMERS UNDER AGE 30 DO NOT KNOW THAT...

So called
“PERFORMANCE
FABRICS”
are made **ENTIRELY** from
PETROLEUM



Customers think
cottons are polluted
with chemicals, while
manmade fibers are
100% MADE FROM
CHEMICALS!

Young customers don't know this.

Why doesn't USDA allow funds collected from producers and importers for research and promotion to educate the customers on this fact?

What is cotton's future?

Customers are moving towards “natural” products, and the USDA now has labels for certified biobased products.



USDA Certified Biobased Products Label

To increase the purchase and use of biobased products for Federal agencies and contractors, the BioPreferred® program was created in the 2002 Farm Bill (Farm Security and Rural Investment Act of 2002) and is managed by the U.S. Department of Agriculture.

USDA United States Department of Agriculture BioPreferred Program

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You are here: Home / Catalog Sub-Groups / Catalog Results

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Search [input] Go

Browse by Subject

- Custodial Services
- Food Services/Cafeteria
- Grounds Maintenance
- Intermediates
- Minor Construction
- Miscellaneous
- Operations and Maintenance
- Personal Care and Toiletries
- Product Packaging
- Vehicle and Equipment Maintenance

Catalog Results

- Personal Care and Toiletries - Clothing

Number of products matching criteria = 1

View by: --15 per page and Sort by: Product Name

Compare Products

Product	Company	State	Ctry	Comp
Fire Resistant T-shirt	Wickers Sportswear Inc.	NY	US	<input type="checkbox"/>

Time Generated: 02/24/2014 11:49 AM CST

Site Map Policies and Links

Consumers and contractors can look up what products are “BioPreferred”

Product Details

Product Name:	Fire Resistant T-shirt
Company Name:	Wickers Sportswear Inc. 340 Veterans Hwy Commack, New York 11725-4300 US
Contact:	Mr. Anthony Mazzenga Email: tmazzenga@wickers.com Phone: 631-543-1700
Product Website:	http://www.wickers.com
Product Description:	Men's FR T-shirt made 50% from FR Lenzing and 50% Fine Merino Wool. Soft and comfortable against the skin. The fibers in the fabric are from natural resources. The fabric has no harmful nor toxic chemicals.
Product Application:	Used by US Military since 2004. Other applications for use by firefighters, electric utilities, energy workers, camping and outdoor enthusiasts.
Unique Feature:	Moisture Wicking to reduce fatigue caused by heat stress. At the same time increase fire protection. Garment will not melt and will not stick to the skin and is free of static electricity. Garments will never pick up and be affected by static conditions. The more you wear, the more you increase.
National Stock Number:	WA703 DSN L
Biobased Content:	97%

97% of this fire resistant t-shirt is biobased—and the shirt includes merino wool

Is the cotton industry strategy Aligned with the customer's DNA?

- The boards that approve promotion efforts are NOT CLOSE TO cotton's end users who are young and mostly female.
- The cotton industry needs to have a RELENTLESS focus on understanding the apparel CUSTOMER DNA and constantly update its strategy and tactics to ensure that it stays close to the customer.
- The new wool innovators have set a great example.

Examples of intelligent ENGAGEMENT with high value customers



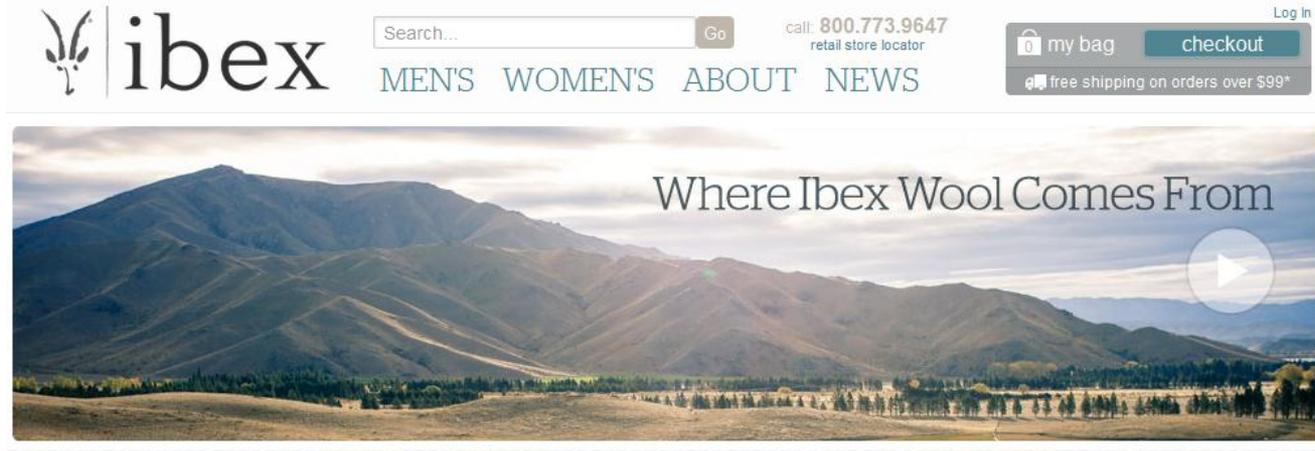
 icebreaker® MERINO

<p>What is Icebreaker merino?</p> <p>Merino wool comes off the back of one of the world's toughest animals – the merino sheep, which thrives in New Zealand's high country. These extraordinary animals grow a fleece that is luxuriously soft, yet strong enough to cope anything nature throws at it.</p> <p>LEARN MORE</p>	<p>Why wear Icebreaker merino?</p> <p>New Zealand produces the longest, strongest and whitest merino wool in the world. This free-range fibre doesn't itch like traditional wool, isn't dammy like synthetics, and isn't stinky like cotton. What's not to love?</p> <p>LEARN MORE</p>	<p>How does Icebreaker merino perform?</p> <p>200 Lightweight merino buffers your body against extremes of heat and cold, breathes to prevent clamminess, resists odour for weeks, and protects against sun and fire. That's because it was road-tested in the mountains, rather than made in a lab.</p> <p>LEARN MORE</p>	<p>Why layer merino?</p> 
<p>Where is Icebreaker merino from?</p> 	<p>What are you saying about us?</p> 	<p>Freedom to try</p> <p>Like taking risks in the outdoors, but would rather play safe with online shopping? Our No Strings Trial lets you order all the sizes, colours and styles you want, then simply send back the stuff that doesn't work for you.</p> <p>LEARN MORE</p>	<p>Comfort guarantee</p> 

The iconoclast innovators in merino wool have been successful at reinventing how an “old industry” is perceived among young affluent audience.

Result: a total transformation of perceptions about wool.

Examples of intelligent ENGAGEMENT with high value customers

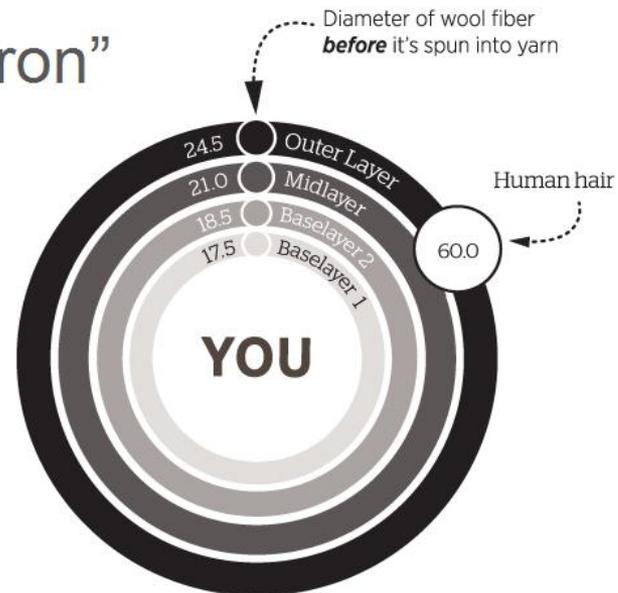


Understanding the “Micron”

The smaller the micron gauge, the finer the wool fiber. That's what makes Ibex wool ultra-soft and comfortable.

Fibers are selected for specific levels of performance long before they are knit into the fabrics you rely on for function.

24.5-Outer layer	On top. Shortest days.
21.0-Midlayer	Second layer. Chilly days.
18.5-Baselayer 2	Next-to-skin. All year.
17.5-Baselayer 1	Next-to-skin. All summer.



The further away companies are from the COTTON FIELDS, the WEAKER the emotional ties with cotton

1,700 miles
away from
cotton fields

lululemon  athletica

180 miles
away from
cotton fields



 Cotton fields

330 miles
away from
cotton fields

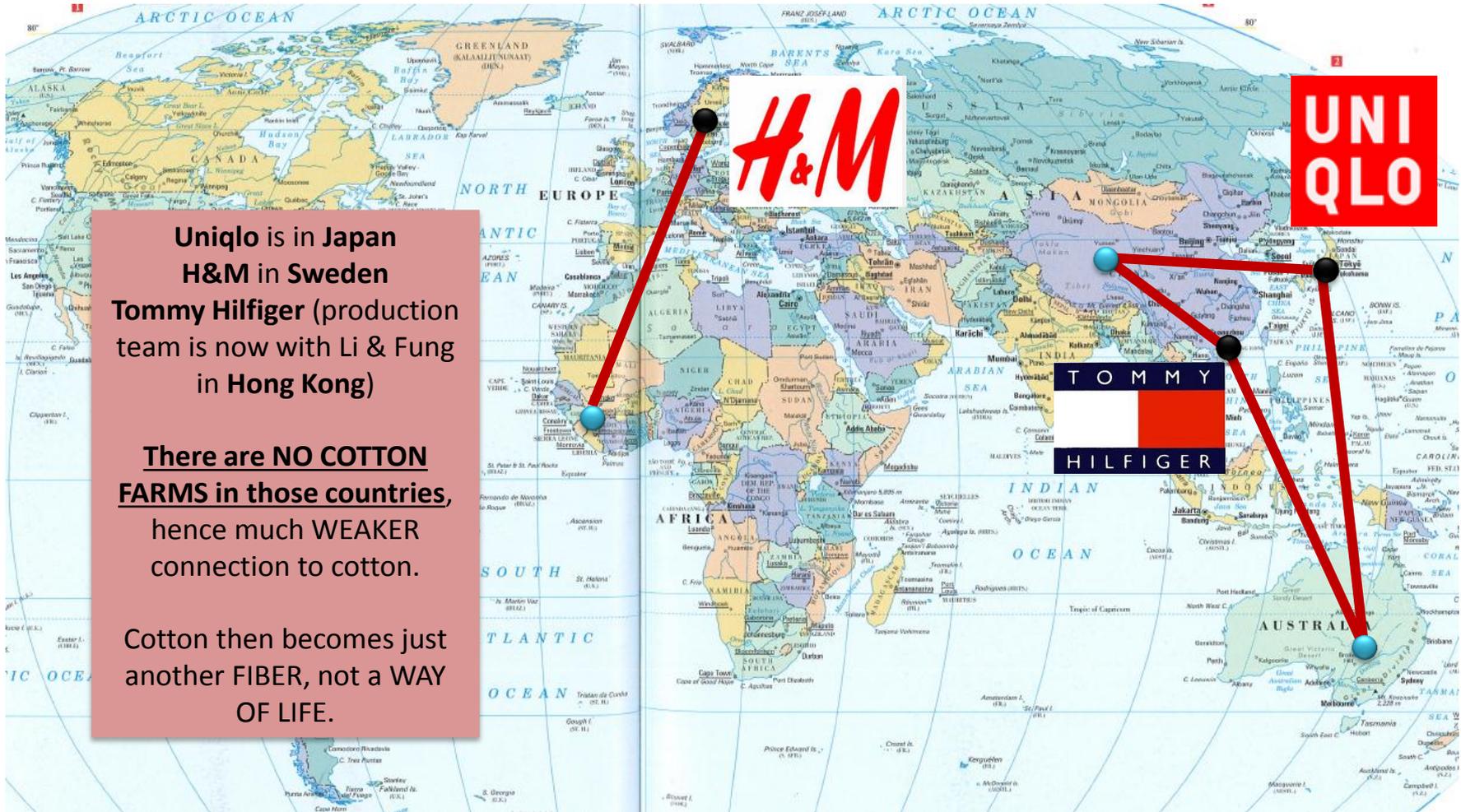


In 2009, LIZ CLAIBORNE, the legendary pioneer in global sourcing and production, signed an exclusive contract with Li & Fung. The Production team in New York and nearly all the in-house team was eliminated. Tommy Hilfiger and other companies followed suit.

As brands cut back product development and a Chinese trading company like Li & Fung becomes the sole sourcing office, the positive attitude about farming and cotton is further eroded. Few or none of these leaders have been on a farm. Emotional ties to cotton are weakened further.

Cotton vs. Man-Made is a decision made on the basis of cost—a challenge ahead for the industry.

The further away companies are from the COTTON FIELDS, the WEAKER the emotional ties with cotton



Celebrate USA cotton's fantastic success

World class classing



Reliable traceability



But be realistic about risks & rewards for cotton users



Risks



Rewards



**How to
OFFSET
RISKS?**

- **Price volatility of cotton** VS. price stability of MMF (polyester)
- **Cotton prices higher than MMF**
- **Cotton more costly to process** relative to MMF
- **Perception that cotton is environmentally unfriendly** (water, pesticides, etc.)

- **Brand equity of cotton eroding.** “Performance” fabric seen as GOOD instead of seen as 100% made from chemicals from an OIL WELL
- **Cotton is soft** (chemical engineering and advertising have eaten into cotton’s advantage in this area).
- **Customer preference is eroding with younger customers** because young people live in cities and far away from farms

- More customer affinity toward cotton (grown in nature, not chemically engineered)
- Better image of cotton (renewable, biodegradable)

When this equation and variables are adjusted, extra COST of cotton will be OFFSET by the advantages of cotton.



Thank You

A. Mark Neuman
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