

Case study

**The IKEA
experience
in moving
towards a
Better Cotton
supply chain
Making
sustainability work**

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**dutch sustainable
trade initiative**

Foreword

Managing their supply chains so they are socially and environmentally responsible is a challenge for many companies that produce and sell products made of cotton. Their raw cotton and semi-finished products are sourced from multiple suppliers and different countries, and are mixed at various stages of the supply chain. The flows of products change from year to year depending on price and crop fluctuations. How can these companies ensure their products are produced in a responsible way, while still remaining competitive?

This booklet tells the story of how IKEA has been tackling this challenge since 2005. Cotton is the second-most important raw material at IKEA, after timber. This commodity has serious sustainability issues, such as the excessive use of water and pesticides, bad labor circumstances, and farmers' indebtedness and poverty. IKEA, along with like-minded retailers, civil society organizations and financial institutions, decided to create a global platform, the Better Cotton Initiative (BCI), which would make cotton production better for the people who produce it, better for the environment it grows in, and better for the sector's future.

As a retailer, IKEA embarked on a challenging journey of learning. It reached upstream into its supply chain to build capacity among suppliers, ginners and farmers to address social and environmental concerns and improve their businesses. The expertise and implementing capacity of civil society organizations, such as WWF, was a crucial building block in this effort.

With an outreach to 120,000 farmers in India and Pakistan alone, IKEA, other brands and their partners have achieved impressive results. But there are still millions of farmers to go. The Dutch Sustainable Trade Initiative (IDH) is proud to work with BCI, leading global brands and other funders and NGOs to accelerate and mainstream Better Cotton as a global commodity. Through this booklet we intend to make the experiences of IKEA available to other players in the sector. We hope it provides inspiration and lessons to build a critical mass and transform the cotton industry into a sustainable source of global welfare.

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Contents

1.0	How IKEA embarked on the Better Cotton journey	4
1.1	Working towards Better Cotton	5
1.2	IKEA and cotton	5
1.3	Cotton in India	7
1.4	Industry response	8
2.0	How IKEA works towards Better Cotton in India	10
2.1	Starting to work, creating capacity	11
2.2	Field implementation partnerships	12
2.3	Three supply-creation models	15
3.0	How IKEA sources the new type of cotton	18
3.1	How does the new type of cotton enter the supply chain?	19
3.2	Monitoring the supply chain	20
3.2	Challenges at various steps of the supply chain	20
4.0	Business case for value chain actors	22
4.1	The farmer	23
4.2	The ginner	24
4.3	The supplier	25
4.4	IKEA	25
5.0	Driving impacts, scale and efficiency	26
5.1	Impacts	27
5.2	Finding scalable models in the field	28
5.3	Increasing efficiency	28
6.0	Lessons and conclusions	32
6.1	How close are IKEA cotton projects to matching the Better Cotton Initiative principles?	33
6.2	Lessons from the IKEA experience	33
	Sources and further reading	37
	Acknowledgements	38

Chapter 1

How IKEA embarked on
the Better Cotton journey

**‘Social and
environmental
responsibility
is embedded in
the IKEA vision
“to create a better
everyday life for
the many people”.’**

Mikael Ohlsson,
CEO, IKEA Group

Millions of consumers in 38 countries are familiar with the IKEA flat-pack furniture and its smart design at affordable prices. They may also know that the Swedish home-furnishing retailer tries to ensure that its products are produced in a socially and environmentally responsible way. But how does IKEA actually do this?

It requires IKEA to reach far upstream into its supply chain – all the way to the farms where the raw materials are produced. IKEA sees such efforts as a pre-requisite for doing good business. This booklet describes how IKEA follows these principles in sourcing one of its most important raw materials – cotton. It focuses on the company’s work in cotton in India, one of its major sources of this commodity. The booklet draws lessons that other retailers and actors in the sector can use to improve their own cotton value chains.

1.1 Working towards Better Cotton

IKEA has pioneered work on the issues around cotton cultivation. It embarked on a journey towards more sustainable cotton around a decade ago. The first project funded by IKEA to introduce better farming practices started in Pakistan in 2005, involving around 450 farmers being trained in farmer field schools. Since then, IKEA has aligned its program with the Better Cotton Initiative (BCI), an alliance of companies (including IKEA) and development organizations.

Switching an entire supply chain onto a more sustainable footing takes time. IKEA started with the environmental issues: its projects enable farmers to produce cotton in a way that is environmentally friendly and that reduces their costs. In addition, IKEA works with ginners and suppliers to ensure that cotton grown by these farmers ends up in IKEA products. IKEA is rapidly switching its product lines to using this cotton.

The cotton in the IKEA supply chain does not yet fulfill all of the BCI social requirements. IKEA is beginning to incorporate these aspects into its program so that by 2015 all the cotton in its products will comply fully with the BCI criteria.

1.2 IKEA and cotton

Founded in the 1940s by the young Ingvar Kamprad, IKEA has grown into a global retailer with an annual turnover of over €21.5 billion. Cotton is the second most important raw material at IKEA, after wood. In the 2010 financial year, IKEA products used 190,000 tons¹ of cotton lint. This is less than 1% of the global market of around 26 million tons, but still IKEA is one of the world’s major cotton buyers. IKEA sources its products through trading service offices that it operates in producer countries. Its cotton products are manufactured primarily in South Asia, China and Turkey.

Although cotton is widely seen as a “natural” fabric, it has a large environmental footprint: its production often involves the use of a lot of pesticides, fertilizer and water. Because it is grown mainly by millions of smallholders, how it is produced also has big social and economic implications.

In 2002, the IKEA Material Risk Council commissioned a study on the global cotton industry to improve the company’s understanding of the industry and formulate a policy for the firm’s cotton consumption.

¹ All figures in tons are metric tons.

The study group investigated the complexities of production in the main cotton-producing regions in the IKEA supply chain, and the suppliers' awareness of issues surrounding the industry.

The study recognized that cotton has major environmental and social effects. It recommended that IKEA approach these issues on three levels: local, global and internal.

- **On a local level**, IKEA began working with development and conservation organizations such as the World Wide Fund for Nature (WWF). At first, the aim was to include social issues as well, but it was pared down to focus initially on agricultural practices.
- **On a global level**, IKEA became a founder member of a global platform, the Better Cotton Initiative, in 2005. It decided to do so after reviewing other options such as organic cotton and Fairtrade, which do not comprehensively encompass all the issues that surround the industry. Also, organic cotton has developed into a niche commodity, with low volumes and a resulting price premium, which IKEA wished to avoid.
- **On an internal level**, IKEA considered starting with organic cotton as it built its capacity with the goal of producing Better Cotton. But the large volumes and the impact on product prices meant this would not be feasible. After reviewing the research and the environmental impact of cotton production, IKEA decided to focus instead on creating a new commodity: one that would address the environmental, and eventually social, issues while keeping prices at par with conventional cotton.

IKEA has a global sourcing strategy: its cotton suppliers are scattered all over the world. The company decided to start its work in its South Asia Trading Area, which covers India, Pakistan and Bangladesh. After achieving progress and learning from experience in this region, other IKEA regions would also start to convert to Better Cotton. There were several reasons for choosing South Asia:

- This region is home to a large number of cotton farmers who experience the socio-economic and environmental concerns associated with the crop (Box 1).

Box 1. From field to loom

First grown over 7,000 years ago in the Indus Valley, cotton is now the world's most important natural fiber. South Asia and China produce 60% of global output: in 2009–10, China produced 32 million bales,² followed by India with 23.5 million. Pakistan was the fourth-largest producer (after the USA) with an output of 9.8 million bales.

Some 99% of the world's cotton farmers and 75% of world cotton production are from the developing world. Millions of rural people earn their living by growing and processing the crop: 60 million in India and Pakistan alone.³ Cotton farming in the developing world is typically done on small farms of less than 5 hectares in size. The main consuming countries for raw cotton are China, India and Pakistan.

Cotton is a warm-climate crop. It is grown mainly in dry tropical and sub-tropical climates at temperatures between 11° and 25°C. The planting period in South Asia is from February to September, while the harvest is from August to February.

Cotton **picking** in the fields is labor-intensive and done by hand. This seed cotton is then **ginned**, which is the process by which seeds and waste (dirt, stems and leaves) are removed from the fiber. The ginned fiber, known as **lint**, is compressed into **bales**.

On average 33% of the crop is converted into usable lint. The seeds are pressed to make cooking oil; the residual meal is used as animal feed. The stems are sometimes used to make paper. The lint is further processed in spinning mills: it is cleaned, carded, combed as needed, and then spun into yarn for weaving.

² The weight of standard cotton bales varies from country to country. These figures are based on bales weighing 480 pounds (218 kg). Source: www.cotton.org/econ/cropinfo/cropdata/rankings.cfm

³ Kapisindia www.kapisindia.com

- IKEA already had a global partnership with WWF, which was working on cotton in the region.
- An analysis of its product lines identified “low-hanging fruit” that could be addressed first: i.e., product lines with the largest volumes in the biggest trading areas. Almost 60% of the cotton volume was sourced from a relatively small number of suppliers in the South Asia Trading Area.

This booklet illustrates the IKEA strategy to move towards Better Cotton by focusing on projects in India, one of the company’s major sourcing countries.

1.3 Cotton in India

With some 4 million farms and 11 million hectares under cultivation in the 2010–11 season, India has the world’s largest area under cotton. Most cotton is produced by smallholders.

Several issues currently face cotton production in India.

Pesticide use

Current cultivation methods put stress on the environment and on the people who grow cotton. Worldwide, cotton is grown on just 2.5% of the world’s cultivated land, but consumes one-quarter of the world’s insecticides and more than 10% of all pesticides (insecticides, herbicides and defoliants).⁴ In India, cotton occupies 5% of the country’s arable land but accounts for 54% of the agricultural pesticides used. The application of chemicals on such a scale results in hazards such as environmental pollution, soil degradation and poor profitability.

Water use

Cotton can also be a thirsty crop: producing 1 kg of cotton lint requires 7,000–29,000 liters of water.⁵ Changes in the monsoon and other weather patterns have made cotton growing riskier, especially in rain-fed areas. Water tables in irrigated regions are falling rapidly, drying up springs and forcing farmers to dig ever deeper for water. Poor water management as well as the contamination of surface- and groundwater

due to excessive pesticide use harms plant and animal life as well as people living in the area.

Social issues

Women and children are frequently employed for this labor-intensive crop, creating social pressures such as lost opportunities for education, exposure to chemicals, and increased workloads for women.

Farmer suicides

Despite soaring cotton production over the past decade, falling profitability has resulted in an increasing number of suicides by cotton farmers over the past few years, notably in the states of Andhra Pradesh and Maharashtra. Several reasons have been cited for this, including rising cost of inputs combined with declining cotton prices, failing monsoons and soil exhaustion due to overuse of chemicals.

Bt cotton

Bt cotton is a genetically modified (GM) cotton in which a gene from *Bacillus thuringiensis*, a bacterium, is introduced into the cotton plant, making it resistant to attacks by bollworm, a serious pest. The Indian government authorized the commercialization of Bt cotton in 2002.

Environment action groups have opposed the introduction of genetically modified cotton on several counts. They argue that the bollworm is developing resistance to the Bt toxin, making the technology ineffective, that Bt seeds cost more than conventional hybrids, and that multinational agrochemical companies are coming to dominate India’s agricultural markets. Among farmers, however, Bt cotton is popular because it raises their yields. The area under GM cotton in India rose from 66% in 2007–8 to over 90% in 2010–11. India is now the country with highest area under GM cotton cultivation. China and Pakistan are also converting to Bt seeds.

⁴ Organic Trade Association www.ota.com

⁵ WWF 1999

1.4 Industry response

As the earth's population grows, demand for cotton and other textiles will continue to rise. Parts of the global textile retail industry have recognized that they need to address these issues, especially to reduce the environmental impact of their products.

Major retailers, including IKEA, H&M (a Swedish fashion retailer) and Marks & Spencer (a British retailer), have joined with various conservation and development organizations to develop value chains for “Better Cotton” – cotton that is produced in an environmentally and socially responsible way (Box 2).

Producing Better Cotton involves training farmers in and encouraging the use of various techniques. The core components of Better Cotton are described in Box 3.

Box 2. Better Cotton

Better Cotton Initiative

A global, multi-stakeholder, collaborative initiative to make cotton production better for the environment it grows in, better for the people who produce it, and better for the sector's future.

The Better Cotton Initiative was launched in 2005 and registered as a membership-based association under Swiss law in July 2009. Its founding members are Adidas, Gap Inc., H&M, ICCO, IFAP, IFC, IKEA, Organic Exchange, Oxfam, PAN UK, and WWF. Currently the Initiative counts 60 participating organizations as its members. The Initiative aims to develop a market for a new mainstream commodity, “Better Cotton”, at par with conventional cotton market prices, with no fixed price premium implications.

It has six long-term objectives:

1. To demonstrate the inherent benefits of **Better Cotton production**, particularly the financial profitability for farmers
2. To reduce the impact of **water and pesticide use** on human and environmental health
3. To improve **soil health and biodiversity**
4. To promote “**decent work**” for farming communities and cotton farm workers
5. To facilitate global **knowledge exchange** on more sustainable cotton production
6. To increase the **traceability** along the cotton supply chain.

The Better Cotton Initiative is “technology-neutral” about Bt cotton: it neither promotes nor rejects genetically modified crops.

Better Cotton Fast Track Programme

A strategy established in 2009 by a group of frontrunners from within the Better Cotton Initiative to speed up implementation of the Better Cotton system.

The founders are:

- **The Better Cotton Initiative**
- **Dutch funding agencies:** the Dutch Sustainable Trade Initiative (IDH), the Interchurch Organization for Development (ICCO), and Rabobank Foundation
- **Implementing NGOs:** The World Wide Fund for Nature (WWF), Solidaridad
- **Global retailers:** Adidas, H&M, IKEA, Levi Strauss & Co, Marks & Spencer.

The program aims to produce 1 million tons of Better Cotton lint by 2015. It has established a fund to support projects to build farmers' capacity to produce Better Cotton. The participating retailers co-finance the project and also commit to buy Better Cotton from the farmers.

Box 3. Better Cotton production principles

- **Minimize the harmful impact of crop protection practices:** Use of integrated pest management, restriction on types of chemicals used, minimum age of 18 years prescribed for spraying of pesticides.
- **Conserve and efficiently use water:** Management practices to optimize water usage: e.g., drip-irrigation methods, alternate-row irrigation techniques, mulching and close crop-planting to prevent evaporation losses.
- **Maintain soil health:** Management practices that involve applying nutrients based on crop needs, minimizing soil erosion, and improving structure and soil fertility.
- **Conserve natural habitats:** Management practices related to enhancing biodiversity on and around the farm, and respecting laws on land conversion.
- **Maintain fiber quality:** Picking and storage techniques to reduce contamination of harvested cotton.
- **Promote decent working conditions for farmers:** Improved health and safety; no child labor, forced labor or discrimination; freedom of association.

Many of these principles are not new to farmers because they are similar to how cotton used to be grown. Such memories make it easier to train and encourage farmers to return to these methods.

In addition to the production principles outlined above, the Better Cotton system encompasses the creation of **farmer support programs** delivered through experienced implementing partners to enable farmers to develop skills, share knowledge and improve their production techniques, organize effectively, and access fairer finance.

The system works towards providing uniquely identifiable Better Cotton bales. To do this, it is implementing a verification **system to ensure traceability** of the seed cotton from the farm to the ginner, and onwards in the supply chain.

To facilitate sharing of best practices, the Better Cotton Initiative develops tools to enable its members, implementing partners and others to share knowledge across the supply chain and across countries.

Chapter 2

How IKEA works towards Better Cotton in India

‘The IKEA approach towards Better Cotton sourcing can be summarized as “study the supply chain, secure capacity and secure the supply chain”.’

Pramit Chanda,
IKEA Global Leader Better Cotton, Trading

This chapter examines how IKEA built capacity to produce and handle cotton grown in an environmentally friendly way by mobilizing its Trading Area offices and forging partnerships in the field.

2.1 Starting to work, creating capacity

The IKEA South Asia Trading Area office (the operation responsible for sourcing and procuring products in the region) took on the task of creating a more sustainable cotton commodity in South Asia. A team was formed in 2006 to develop capacities both in the field to train and organize farmers to produce cotton in a more environmentally friendly way, as well as in the supply chain to procure and process such cotton.

In the 2010 financial year, 13.4 percent of the total cotton used in IKEA products came from cotton produced in a more environmentally friendly way. The goal is to convert to 100% Better Cotton by 2015.

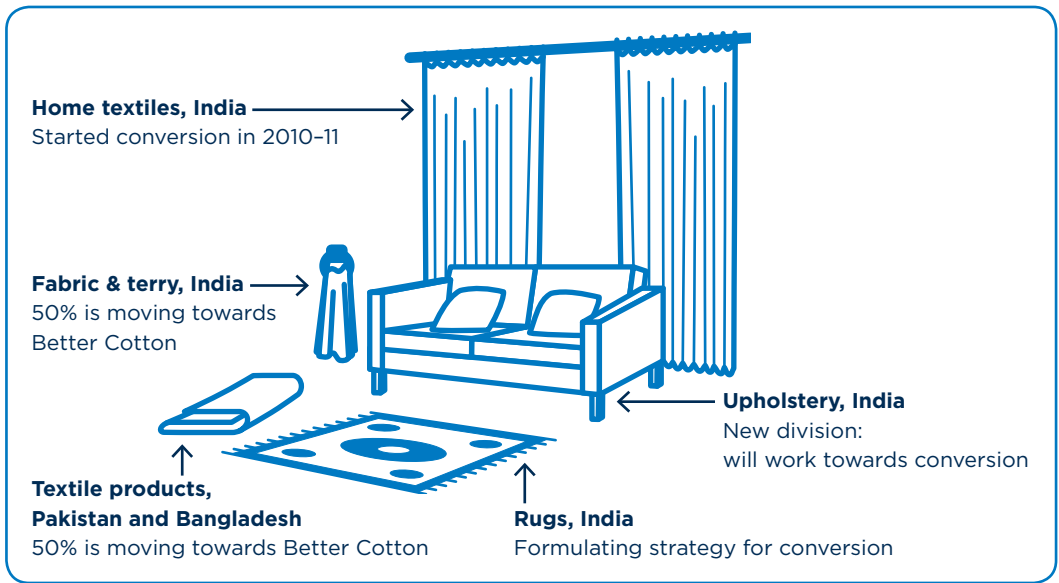
The IKEA Home Textiles division, which is now converting its product lines towards Better Cotton, illustrates how the firm goes about analyzing the supply chain and creating capacity for this commodity. This division covers numerous product types, ranging from coverlets and cushions to curtains and kitchen textiles. The product line for this division was broken down by supplier and then further subdivided by yarn type and fineness. IKEA decided to address finer yarns (“cotton counts” of 20 or more). It identified three of its biggest suppliers of such yarns, covering 40% of the Home Textiles division’s requirements. These three supply chains were then analyzed to identify the cultivation region where the seed cotton was to be procured and the volumes needed. These are the regions where IKEA looked for

partners to train and organize the farmers. As a rule of thumb, the IKEA team works towards building three times the capacity it actually needs, as the farmers are free to sell their cotton to other ginners outside the IKEA supply chain. It builds the capacity by working with NGOs or supply chain partners operating in the production area, and by identifying ginners that undertake to supply cotton lint produced by the project farmers.

IKEA aimed to create partnerships with NGOs that understood its business needs and volumes, and could accommodate these needs alongside their social or environmental agenda.

At the same time as it organized the training of farmers how to grow cotton in the new way, the team created capacity in the supply chain. One task was to work with the managers in IKEA Trading Area offices on supplier management and procurement. The managers were concerned about committing to this initiative without their suppliers fully understanding and complying with it. They were concerned about losing flexibility. Would the new approach compromise their ability to develop new suppliers, they asked, and would it hamper their ability to move business between suppliers in response to forecast swings?

Figure 1. Conversion of IKEA products from South Asia towards Better Cotton



Another task was to introduce the suppliers to the idea of Better Cotton. These had various questions:

- How was this new commodity different from organic cotton, which most suppliers were already aware of, and in some cases, were already sourcing?
- How were they expected to procure this new type of cotton, since their current supply chain did not have access to it?
- In what geographical areas was the new type of cotton available?
- Most importantly, what were the pricing premiums, if any, based on their past experiences with organic cotton?

A transition plan for each product range was developed. Sheets and bedcovers were the products best suited for early conversion, since these are made from yarns with “cotton counts” (a measure of coarseness) in the 30s – the most commonly produced type of yarn in South Asia. The “DVALA” range of bed linens were chosen to be converted first in 2008-9.

In the IKEA South Asia Trading Area office, three categories of business now source half their cotton from registered farmers. These are Fabric and Terry (India), Textile Products (Pakistan) and Textile Products (Bangladesh). Other IKEA product lines, which need coarser yarns to make products such as upholstery and rugs, are at various stages of strategizing and conversion (Figure 1).

2.2 Field implementation partnerships

IKEA funds various partners to implement activities in the field. Their partnerships hinge on IKEA and the field partner collaborating closely right from the initial stages of a project. Together, they do the initial project planning and decide on the project size, the capacity to be developed, the number of farmers to be targeted, the documentation needed, etc.

World Wide Fund for Nature (WWF)

IKEA and WWF formed a global partnership in 2002, with its first project focusing on promoting responsible forestry in priority regions around the world. In 2005 the partners extended their cooperation to reducing the environmental and social impact of cotton cultivation in India and Pakistan.

In **Pakistan**, WWF had been working on cotton cultivation since 1999. Its collaboration with IKEA grew out of a water-conservation project in Bahawalpur, Punjab. It involved 450 farmers at first, and expanded to over 42,000 farmers in 2010–11, producing an expected 62,000 tons of seed cotton.

In **India**, the first joint project started in 2006 in Warangal district, Andhra Pradesh. This, too, was based on a water-conservation program; it involved 40 farmers cultivating 16 hectares. It established plots to test and demonstrate water usage, soil fertility and pesticide management, using “farmer field schools” to train farmers. This project expanded to 3,000 farmers in the following year. In 2008, IKEA withdrew from the project as the quality of the cotton produced in this region was more suitable for apparel than for IKEA home-furnishings. This project is currently managed by WWF in partnership with Marks & Spencer.

The second phase of the joint IKEA and WWF partnership works in **Aurangabad** and **Jalna** districts in Maharashtra. This has developed master trainers in every village to reach more farmers than was possible through the farmer field school approach. It has set up two resource centers in the area to make technical knowledge and support available. In the first year (2009), 800 farmers registered with the project. The target for the 2010–11 season was 25,000 tons of seed cotton, with 4,800 farmers registered.

Action for Food Production (AFPRO)

AFPRO is a socio-technical NGO in India that aims to reduce rural poverty through better natural resource management. In 2002–3, AFPRO initiated an integrated pest management program to reduce the use of farm chemicals in the Marathwada region, Maharashtra, an area with low cotton yields despite a very high pesticide use.

The IKEA cotton team initiated contacts with AFPRO, and in 2008 it started a joint project in the neighboring **Yavatmal** district. This is a key cotton-growing area where erratic rain and high input costs lead to crop failure and indebtedness among farmers.

AFPRO's initial focus on reducing chemical use was expanded to cover other aspects of crop management in support of the move towards Better Cotton. The Yavatmal project started in 2008–9 with 6,400 farmers who harvested some 10,000 tons of seed cotton. In 2010–11, the number of farmers doubled to over 12,000, and the production target was 30,000 tons.

After analyzing the supply chain of its Bangladesh-based suppliers of bed linens, IKEA identified the western state of **Gujarat**, one of India's leading cotton-growing states, as a key link in the chain. In 2009, the IKEA and AFPRO partnership was extended to **Surendranagar** district, Gujarat, a hub for cotton ginning. Beginning with 2,600 farmers in 2009, this project now works with 6,000 farmers. A third project, with 6,200 farmers, started in **Wankaner**, Rajkot district, in 2010.

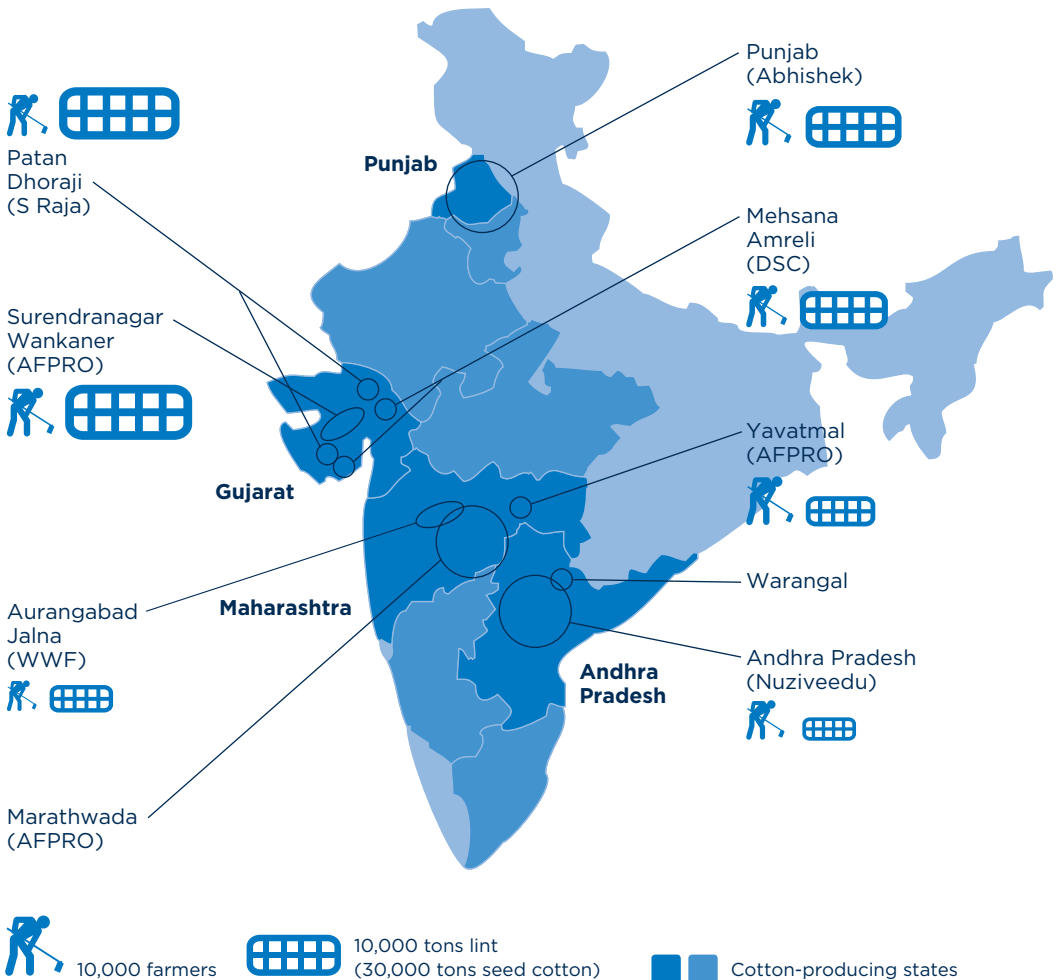
S. Raja

IKEA has a joint project with S. Raja Exports Private Limited, one of the largest ginners operating in **Gujarat**. This project started in 2009 with 975 farmers and an output of 5,000 tons of lint. It currently has almost 9,000 farmers registered. It targeted 30,000 tons of lint for the 2010–11 season.

Abhishek Industries Limited

Based in the state of **Punjab**, Abhishek is one of the largest suppliers to IKEA of towels made completely or mostly of cotton. The company is a vertically integrated producer of terry towels, yarn and agro-based paper. In 2003, it joined other textile players in the state in a consortium to stop cotton yields from declining. The consortium “adopted” villages – starting with just one in 2003, and building up to 95 in 2009 – and provided them with technical know-how and guidance. Yields doubled as a result. In 2009, the consortium was dissolved as the introduction of Bt seeds also raised yields, and Abhishek Industries joined with IKEA to promote cotton produced in a more sustainable way in the same area. In 2010–11, 11,000 farmers from 200 villages are registered with the program; the projected harvest is 19,000 tons of lint.

Figure 2. IKEA cotton project sites in India



Other IKEA projects

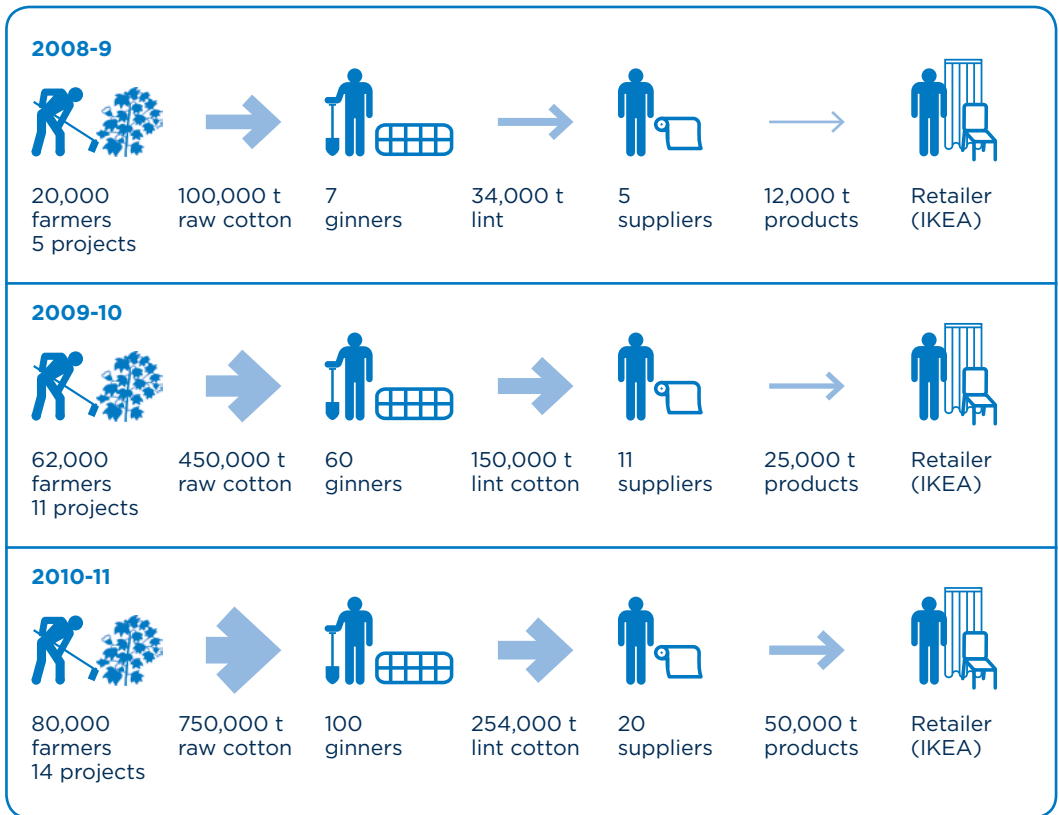
Between them, WWF India, AFPRO and Abhishek Industries account for almost 60% of the capacity of the cotton projects funded by IKEA in India.

For the 2011-11 season IKEA has a total of 14 projects in India and Pakistan. Besides the partners mentioned above, projects are under way with two more organizations: **Development Support Centre** (DSC, a Gujarat-based NGO), and **Nuziveedu Seeds Private Limited** (NSL, a large seed company).

Figure 3 summarizes the growth in cotton procurement under the projects funded by IKEA. In 2008-9, some 20,000 farmers grew 100,000 tons of raw cotton. By 2010-11, these numbers had grown to 80,000 farmers producing 750,000 tons. Between one-third and one-sixth of the project cotton lint ends up in IKEA products; the remainder is sold by ginners as regular cotton.

In the 2010 financial year, IKEA consumed a total of 190,000 tons of lint cotton worldwide. Of this, 50,000 tons (26%) were from IKEA projects that were moving towards Better Cotton. All of this came from India and Pakistan.

Figure 3. Cotton from projects funded by IKEA in India and Pakistan



2.3 Three supply-creation models

Analyzing the above, it is apparent that the cotton project operations fall into three distinct models:

- **NGOs** creating capacity in a cotton-growing region, working directly with producers.
- **Ginners** driving the creation of capacity in their catchment region, procuring cotton from the project farmers at harvest and supplying ginned bales.
- **Suppliers** creating and securing capacity at farm level and tracking the ginned bales into their vertically driven manufacturing process.

We look at each model in turn.

1 NGOs creating capacity

IKEA uses this model with NGOs such as WWF, AFPRO and DSC. These NGOs work directly with the farmers. They are active in some of India's most distressed cotton-growing regions, where yields are low and many farmers are poor and indebted. The main focus of this model has been on:

- Reducing farmers' production costs by minimizing the improper use of fertilizers and pesticides, and by replacing artificial chemicals with natural ones where possible.
- Demonstrating soil and water conservation techniques.
- Helping farmers mobilize into groups to buy inputs and sell their yield.

Here, the role for IKEA is in setting targets, funding, and verification of the projects.

2 Ginners driving the supply chain

Two leading ginners in Gujarat, S. Raja and Patel Cotton Industries, have linked with IKEA to develop a supply base of farmers who have converted to farming practices that moves towards Better Cotton.

The ginners buy and process the harvested cotton. With decades of operation in the cotton-growing area, these companies have longstanding relationships with local farming communities. These ties have facilitated the creation of a network of farmers who produce cotton in the new way. The ginners use their own staff to train farmers, or work with NGOs such as AFPRO to convince the farmers to switch to the new farming methods. The ginners assured the farmers they would cover productivity losses, if any, in the first year due to the new techniques. In this model, IKEA funds and verifies the project.

One of the ginners, S. Raja, has created a second, independently funded project in addition to its collaboration with IKEA. Here, IKEA is involved only in the verification process.

3 Supplier-driven chain

Textile suppliers such as Abhishek Industries are self-motivated to establish, fund and monitor the entire supply chain. Abhishek's motivation comes from the company's initial foray into the realm of sustainable farming practices and its belief in the future of Better Cotton. Its activities cover the conversion of farms from conventional to more sustainable methods, ensuring the movement of the harvested seed cotton to the ginner, and then bringing bales of this cotton to its spinning units. Abhishek has a total staff of 48 dedicated to managing this process in the field. In this model, IKEA is involved in the verification process.

Abhishek Industries is evaluating the potential of producing cotton using the improved techniques in Budni, Madhya Pradesh, where it currently has a 100,000-spindle spinning operation.

What is the best model?

After analyzing the various models, the IKEA team concluded that there was no "one-size-fits-all" solution. The team decided instead to minimize disruption to existing procurement channels and to look at connecting the various players involved.

Chapter 3

How IKEA sources the new type of cotton

‘Initial success cannot come from a new supply chain. Business relationships are too firmly established in this industry, so it is best to work within existing parameters.’

Pramod Singh,
IKEA Project Manager Better Cotton-India

Once farmers were able to produce cotton in a more environmentally friendly way, the next step for IKEA was to ensure that this cotton moved through its supply chain and ended up in its products. This chapter examines the challenges of doing this.

3.1 How does the new type of cotton enter the supply chain?

Creating capacity at the farmer level is key to the whole Better Cotton process. But the process is incomplete if the project cotton does not enter the supply chain, or if it cannot be traced through the various stages of processing and manufacture into the finished product that IKEA sells to its customers. That means it is necessary to create a series of linkages between the actors in the chain – from farmers to ginners, and from ginners to suppliers.

Linking farmers and ginners

After enabling farmers to produce more sustainable cotton, the next step is to ensure that there is sufficient local ginning capacity to handle the commodity. Ideally, an existing partnership of farmers and a ginner would agree to convert to cotton grown using the improved techniques. But in most cases, additional ginning capacity is needed since farmers tend to sell to a variety of ginners, depending on the price offered.

The ginning mills have to be close to the farms to keep transport and labor costs down and to avoid eroding the farmers' margin. Ginners usually sell bales of ginned cotton as quickly as possible, unless they decide to maintain a stock in expectation of price increases during the season. But with the project cotton they may keep their bales for a certain time period, during which prices quoted are valid. In doing so, they may incur warehousing charges (about INR 15 (USD 0.33) per month for each 165-kg bale) and finance charges (12% a year).

Because they do not see immediate financial benefits and may incur additional costs as described above, many ginners do not regard processing the project cotton as a desirable activity. Those who have entered the IKEA project cotton supply chain are those who see a long-term benefit in helping create this new commodity, or who have gained a new market (e.g., exports) thanks to this initiative.

A case in point is Patel Cotton Industries, a ginner based in the town of Dhrangadhra, in Surendranagar district, Gujarat. In 2009 it agreed to gin project cotton for export to IKEA on a contract basis. However, having seen this as a business opportunity, it applied for an export quota and proceeded to procure and gin its own project cotton for export the following year. In 2010–11, 50% of its ginning capacity was IKEA project cotton, up from 15% in the previous year.

Linking ginners to suppliers

Ideally, suppliers would continue to purchase bales from their existing source base of ginners, who have already entered the project's supply chain. But in reality, IKEA often advises suppliers on which ginners are producing project cotton bales so they can purchase their input materials from them.

In some cases, suppliers have identified the ginners they already work with; IKEA has then worked with these ginners to procure cotton from project farmers. This is possible only if enough farmers already produce this cotton in the area.

Suppliers that are vertically integrated (i.e., that spin yarn, weave fabric and turn it into finished products) have an advantage over those that do only one of these steps. Those that are not vertically integrated have to put extra effort in ensuring that the various players along their supply chain procure, track and process the project cotton through their own facilities.

3.2 Monitoring the supply chain

When a farmer agrees to start working towards Better Cotton, he or she is given a diary to record cultivation activities and input costs on a regular basis. The farmer must maintain this for the entire season.

An IKEA verification team samples 25% of the farmers who have registered that season in a given region or project area. It visits these farmers four times during the season, typically starting in July and August, 1-2 months after planting. There were a total of 70 verifiers involved in this process in 2010-11.

Using a simple questionnaire with a yes/no format, the farmers provide information on the different cultivation methods, soil-preparation techniques, irrigation practices, pest-control methods and fertilizer treatments they have used. Those who comply with the requirements are classified as working towards Better Cotton.

There is no independent check on whether the farmers have answered truthfully. But the project farmers have nothing to gain from fabricating their responses: they sell their cotton at the prevailing market price, so they do not stand to gain financially at the point of sale. They do gain by saving on input costs - which is a motivating factor in itself. Field facilitators and scouts (who check the crop for pests and other field problems) are also in frequent contact with the farmers and are able to help them implement the improved techniques.

Once the picking starts, the same verifiers use an assessment form to crosscheck the sales of the crop from registered farms to ginners who have been identified for the IKEA supply chain. The farmers' data are cross-referenced with the ginners' records as well as with the intermediate traders (if there are any) involved in the transaction.

A data-entry centre in the town of Dhoraji in Gujarat, close to one of the ginner-driven projects, enters the data recorded by the verifiers throughout the season. This centre handles data from all IKEA funded cotton projects in India.

Two software programs - IKEA Better Cotton Database and myString - were used from 2011 onwards to capture data at the farm and ginner levels. From the spinning stage onwards, suppliers enter data directly into the myString software, ensuring traceability along the supply chain.

3.3 Challenges at various steps of the supply chain

Cultivation

- Convincing a rural, semi-literate population to abandon existing farming practices for as yet unproven techniques.
- Overcoming initial resistance to adopting new methods which may jeopardize the farmers' only means of livelihood.
- Relationship building, establishing trust, creating a network in the community of farmers who can show the benefits of adopting better management practices.
- Identifying suitable local partners to work with farmers. These partners must understand both the business objectives and the socio-environmental focus of the initiative.

Ginning

- Identifying ginnerers in close proximity to areas where project cotton is grown and who are willing to engage in the procurement process.
- Convincing ginnerers to participate in the supply chain without a visible, direct, short-term financial benefit. Ginnerers are assured they can sell their bales into the conventional market if they see low demand for their project cotton.
- Connecting ginnerers to spinners who are part of the IKEA supply chain.
- Ensuring that the capacity for growing and for ginning project cotton grow at the same rate. This is needed to avoid over- or under-supply, changes in price, and disappointment among farmers or ginnerers.

Supplier

- Initial reluctance by suppliers to disclose their supply chain and thereby potentially lose their competitive advantage. (Suppliers are the only actors in the chain with direct contacts and a financial contract with IKEA.) However the suppliers soon realize that this transparency works to their advantage as it helps create supply chain linkages and aids them in their procurement of project cotton.
- Possible need to develop relationships with new ginnerers and yarn suppliers to procure project cotton bales.
- Additional activity e.g., the introduction of new procurement processes, data entry for traceability purposes, etc.

IKEA

- Creation of a specialized team to implement this initiative and develop capacity and supply chain linkages.
- Project cost of implementing this initiative.
- Managing change at the business unit level.
- Developing an entirely new supply chain to handle the project cotton for a complete product line.
- Balancing the new demand for cotton that complies with the BCI criteria with efforts to keep prices paid to suppliers at market level.
- Limited flexibility in moving production between suppliers to accommodate forecast swings in supply or delivery-related issues.

Chapter 4

Business case for value chain actors

‘Improving the environment and farmers’ lives is possible because all members of the supply chain agree that financial gains from implementing Better Cotton should stay with the farmers.’

Guido Verijke,
Chairman, Better Cotton Initiative; Deputy
Business Area Manager Textiles, IKEA

This chapter examines the business case for moving towards Better Cotton from the points of view of four actors in the value chain: the farmer, ginner, supplier, and IKEA itself.

4.1 The farmer

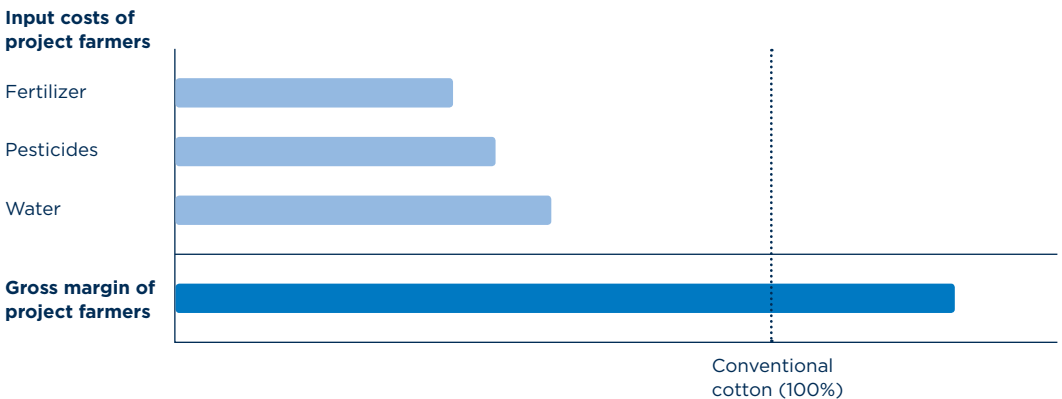
The farmer is the first step in the cotton supply chain. In most of India's cotton-producing regions, farmers typically cultivate 1.2-1.6 ha (3-4 acres) of land. The average yield is 503 kg of lint per hectare, compared to the world average of 725 kg/ha.⁶

Under the program initiative, production costs have fallen because of reduced input costs. In some projects, yields have also increased as a result of the initiative.

Farmers can save an average of 50% of their outlay on these inputs, enabling them to earn higher gross margins (Figure 4).

Farmers who have adopted the new farming practices have found their profitability rising over the years (Figure 5).

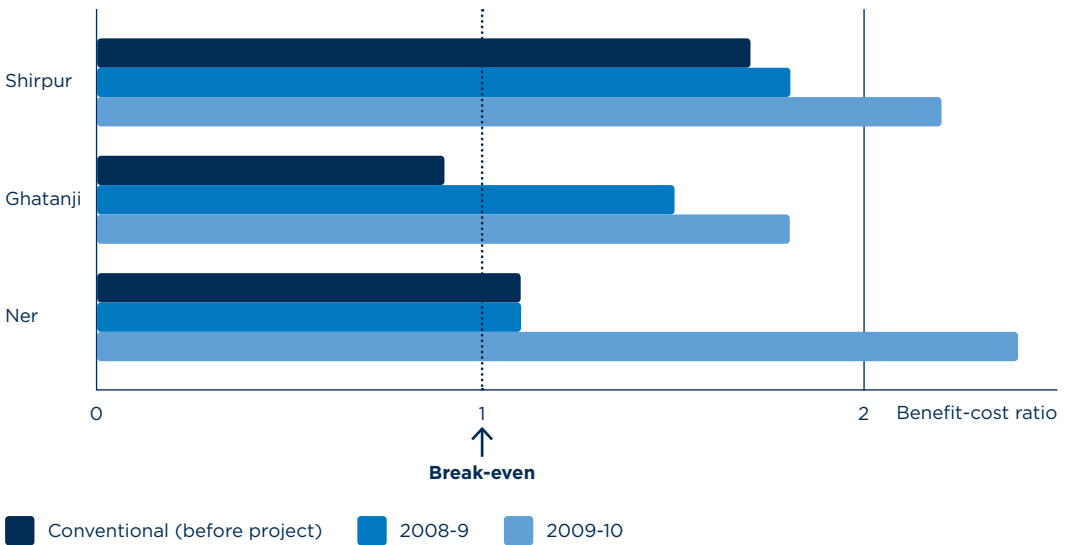
Figure 4. Project farmers have lower inputs and in some cases, higher yields than conventional farmers, so earn higher gross margins.



Source: WWF India. Data from Warangal district, Andhra Pradesh, and Aurangabad district, Maharashtra, 2009-10. Non-project (conventional cotton) farmers = 100%. Weighted average of 796 farmers (Aurangabad) and 1418 farmers (Warangal).

⁶ Source: Cotton Corporation of India/Cotton Advisory Board

Figure 5. The benefit-cost ratio of producing cotton using the environmentally friendly methods has risen over time. Data from three clusters of villages in Yavatmal district, Maharashtra.



Source: AFPRO. Sample sizes: Before project and 2008-9: 30 farmers; 2009-10: 11,826 farmers.

4.2 The ginner

In the short term, ginners do not earn any more income from procuring and processing the project cotton. They may incur additional costs in ensuring traceability, as described below.

The procurement process is not very different from that for conventional cotton. The same farmers now cultivate cotton using the improved methods, and continue to sell to the same ginners. The ginners buy the crop at the prevailing market rate, similar to conventional cotton.

When ginners process cotton from the registered farmers, they have to segregate and track it through the ginning process. But this is no different from what most ginners do while processing conventional cotton of various quality levels.

Ensuring traceability of the project cotton through the supply chain means extra paperwork and tracking records. The ginners have to maintain a register of the raw cotton that arrives at their premises, keep it

separate from conventional cotton, and then track it as it is processed into lint and pressed into bales. In some cases this tracking is an additional step, and is different from how conventional cotton is handled. The onward sale of bales of project cotton takes place at prevailing market rates to yarn spinners, with no price premium expected.

So why would a small- to medium-capacity ginner engage in the IKEA cotton supply chain, when it brings no discernible benefit and is coupled with additional tracking responsibilities and accountability? Here are three reasons:

- Ginners with a medium- to long-term vision for their business have been the first to understand the potential of Better Cotton and to realize that by agreeing to participate in this new supply chain they are securing their future market share. For example, Gujarat currently has more ginning capacity than is needed for the amount of cotton harvested in the state. Local ginners who participate in the supply chain can ensure that a certain portion of their ginning capacity is used or has been reserved beforehand.

- Ginners interested in developing a broader client base across India can win new contacts with reputable customers: spinners who are part of the IKEA supply chain.
- Some ginners have had the opportunity to expand into a new market – exports. The export business guarantees assured payment terms and a higher price. Even though prices currently (2011) are at an all-time high, export prices of lint have an advantage of almost 20% over domestic prices.⁷

4.4 IKEA

The IKEA philosophy is to embrace sustainability as a business practice, and cotton is a large component of the company's textile products. With its negative impacts on the environment and its effects on farmers' socio-economic conditions, cotton was recognized as an important commodity to work on.

How does IKEA gain from the switch from conventional methods to Better Cotton?

- It ensures that cotton cultivation stays profitable in the long term, thereby ensuring supplies for itself and all players along the chain. If cotton does not remain a financially viable crop for farmers due to low yields as a result of soil depletion, dropping water tables and a lack of technical know-how, the farmers will switch to other cash crops. This could result in market volatility and swings in supply.
- Setting up the Better Cotton process requires getting to know and understanding the entire cotton supply chain, which in turn leads to better risk management.
- Sustainability is an increasingly important issue for retailers and big brands as well as their consumers. Consumers are interested in ecologically sustainable and socially responsible products, but will not necessarily pay a premium for them. Creating a commodity like Better Cotton will help IKEA bring a competitively priced product to market that satisfies the consumers' and its own needs for a responsibly created product that has a smaller ecological footprint.

4.3 The supplier

In 2011, 20 IKEA suppliers in South Asia are switching their product lines towards Better Cotton. Most IKEA suppliers have long-term relationships with the company and see business value in continuing and growing their partnership. For some suppliers with processing scattered over diverse locations there can be extra costs related to tracking and traceability of Better Cotton through their facility.

With IKEA committing to convert its entire product line to Better Cotton by 2015, suppliers who understand and cooperate with this initiative will see benefits such as a continued assured business relationship with the company.

In 2008–9, Abhishek Industries started its own procurement chain that aims to produce Better Cotton. For the 2010–11 season, it targets to procure 8,000 tons of cotton lint that is produced in an environmentally friendly way. Abhishek has seen its business with IKEA grow from €0.45 million in 2005 to a projected €22 million for the 2010–11 fiscal year, making IKEA its second-largest customer.

⁷ Source: Cotton Corporation of India www.cotcorp.gov.in/current_cotton.asp#lint

Chapter 5

Driving impacts, scale and efficiency

‘The collaborating farmers are routinely more profitable than their counterparts who continue to farm using conventional methods.’

Sumit Roy,
Project manager, Freshwater &
Wetlands Program, WWF India

This chapter reviews the impacts of the IKEA cotton initiative on people, the planet, and profit. It also looks at how scale and efficiencies of various field projects have evolved over time.

5.1 Impacts

Impacts on people

The farming community, often the most vulnerable link in the supply chain, has seen the most benefits from the sustainable farming methods implemented through the IKEA move towards Better Cotton.

- While productivity has not always risen, input costs have fallen thanks to lower consumption of pesticides, fertilizer and water, leading to improved profitability for farmers. WWF figures for the Aurangabad project, for example, show a 35% increase for registered farmers for the year 2009 compared to non-participating farmers.
- Simple changes to picking methods to reduce contamination in the harvested cotton also help fetch better prices from the ginner. Some ginneries have commented that they offer a 4-5% premium for cleaner seed cotton.
- Reduced exposure to agricultural chemicals has had a beneficial effect on the health of field workers, especially women, who report fewer eye irritations, skin allergies, headaches and other ailments. Farmers learn how to protect themselves from chemical exposure such as using masks, spraying less often, spraying downwind, and applying spray during the cooler parts of the day when pests are present on the plants. Many farmers now spray only 2-3 times a season instead of 5-6 times.
- The farmers are organizing into informal associations to buy inputs and sell seed cotton jointly.

- Younger members of the community are being exposed to more productive and sustainable methods of farming, which benefits other cash crops as well as cotton cultivation.
- NGO partners are bringing technical knowledge and expertise from agricultural universities and research centers to the farming population.
- Better profitability means more income, a better quality of life and improved nutrition for farm families, especially women and children.

Impacts on the planet

- Farmers involved in IKEA cotton projects across South Asia are learning how to manage water resources more effectively by using drip irrigation, alternate row irrigation, improving the soil's ability to retain moisture, etc. WWF projects in India and Pakistan have reduced water use by 37% to 52%.
- Farmers are being trained how to scout for pests in their fields. They are learning how to control pests using natural methods at the appropriate time in their life cycle, and to use chemicals only as a secondary measure. They are learning to avoid indiscriminate spraying, which kills beneficial insects along with the pests.
- Farmers have learned the benefits of testing their soil to determine how much organic and inorganic fertilizer to apply.

Impacts on profit

- Farmers earn more because they have been able to reduce the amount of chemicals they use, and thus their input costs. Ginners and spinners do not see increased profits, but they gain an assured business from a large, reliable customer.
- By working in groups, farmers can improve their negotiating and bargaining power and purchase seed, fertilizer and pesticides at lower prices. By selling collectively, they can also negotiate better prices when selling their raw cotton to traders and ginners.
- Profit levels may rise or fall from year to year, depending on weather conditions, yields and global cotton prices. But the collaborating farmers are routinely more profitable than their counterparts who continue to farm using conventional methods.

The master trainers, who hold a diploma in agriculture, are in regular touch with the farmers registered under the program funded by IKEA. They demonstrate critical inputs, hold training sessions, visit demonstration plots and farmers' plots to review implementation and progress, and resolve any queries that the farmers may have.

WWF is looking at a third possible model, which will incorporate a public-private partnership. One master trainer will serve 10 villages. He or she will be better qualified, and will liaise with government extension officers to further support farmers to convert to Better Cotton production over time. This will mean the project will have to cover fewer human resource costs. The extension officers will deal with farming practices, while an NGO partner will cover the "decent work" aspect. This model will be tested in Punjab before perhaps implementing it in WWF's Warangal and Aurangabad projects.

AFPRO's approach is similar to that used by WWF. It has partnered with grassroots organizations in the area and has created a network of coordinators and village-level volunteers who interact regularly with farmers, register and record farmer data, conduct training, and so on.

5.2 Finding scalable models in the field

IKEA works closely with its field partners to check their projects and to build cotton volumes to a larger scale. It is necessary to use participatory approaches when working with farmers to enable them to make site-specific decisions on how to manage their crops. But at the same time it is necessary to cover as many farmers as possible in a short time. What is the best way to achieve these apparently mutually contradictory goals?

In Warangal, WWF found that its initial concept of farmer field schools was not financially viable, as it involved high implementation and operating costs and could train only a limited number of farmers. This therefore evolved into a model where a master trainer based in every village covered a large area and more farmers. Villages were combined into clusters, and a network of consultants was created for each cluster. The WWF Aurangabad project, which was initiated later, implemented this model in its first year.

5.3 Increasing efficiency

Here we look at the figures for numbers of farmers, output and costs for various projects over time.

As might be expected, the number of farmers and output has risen over time (Figures 6 and 7). The cost to the project per ton of cotton has fallen over time, to between €1 and €5 per ton, as the number of farmers has risen but budgets stay relatively constant (Figure 8). Further falls in the cost per ton are expected. A similar trend can be seen for the cost per farmer served.

There are several reasons for these trends:

- In its first years, a project’s efficiency may be low as the model is developed and adjusted, and as teething troubles are overcome. The first 2 years of the Warangal project show this clearly: the project started late in the season, leading to low output and high costs.
- Over time, however, the project overcomes its initial difficulties and adjusts its approach. In WWF’s case, this involved moving from the farmer field school model to using master trainers. Later projects can take advantage of these lessons, so tend to be more efficient right from the start.
- As they learn their jobs, staff become more efficient. For example, over time a master trainer may progress from managing 100 farmers to 300 farmers.
- As a project matures, its visibility increases, attracting more participation and generating higher quantities of cotton.

Figure 6. Numbers of farmers in four cotton projects funded by IKEA

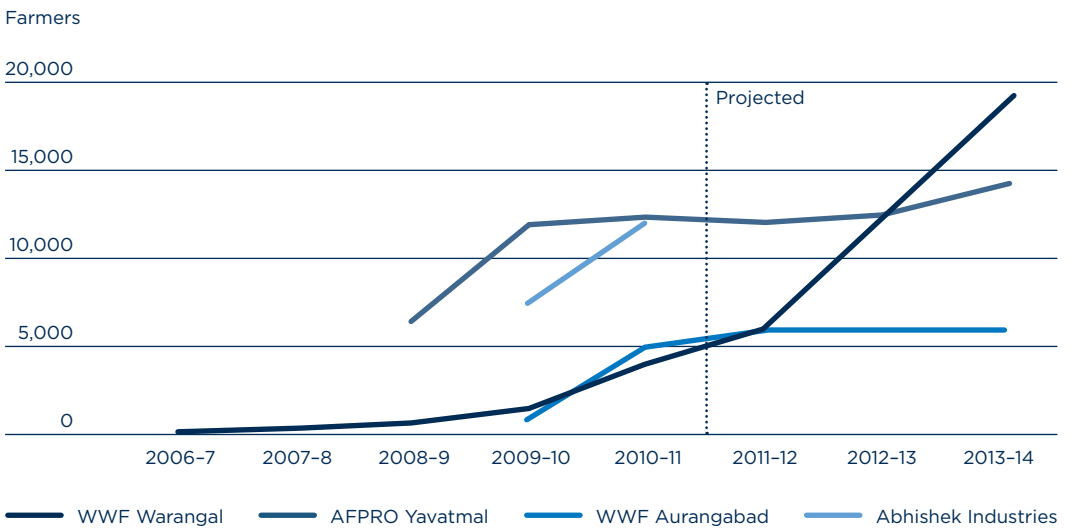


Figure 7. Tons of seed cotton production from four projects funded by IKEA

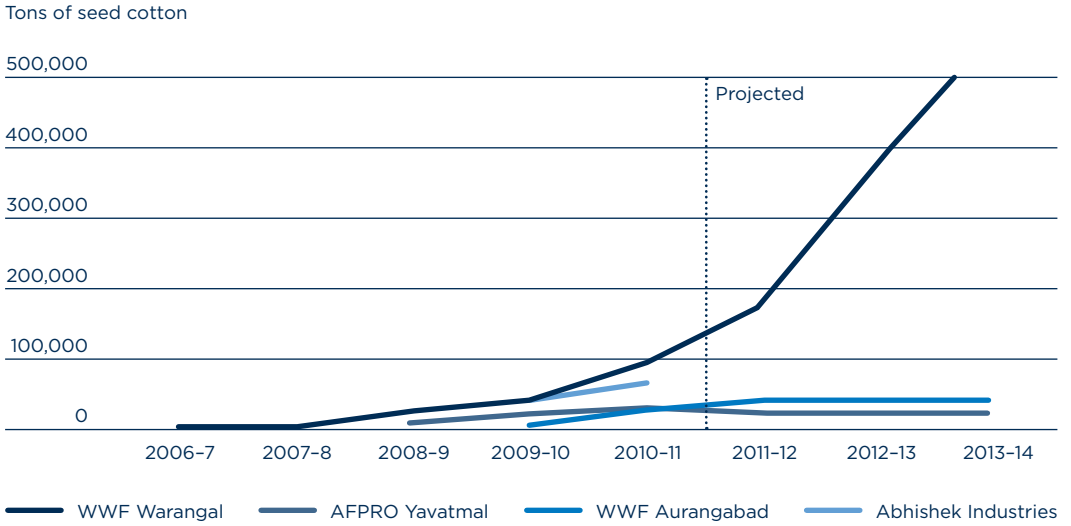
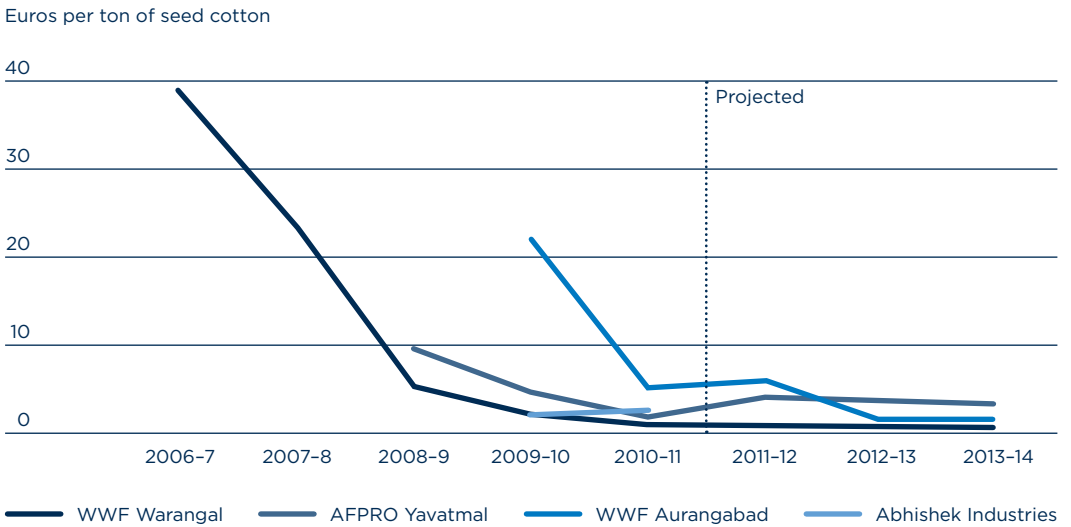


Figure 8. Cost to the project per ton of cotton in four projects funded by IKEA



Other factors that may affect a project's efficiency include:

- **The existing farming practices in the area:** if farmers already use a similar method, they can adapt easily and fewer resources are needed for training and implementation.
- **The landholding size:** larger landholdings mean it is necessary to train and serve fewer farmers for a given output.
- **The physical and human resources:** areas without reliable irrigation, with poor-quality soil and low income levels among the farming population tend to produce lower yields with the same amount of project investment.

Chapter 6

Lessons and conclusions

‘IKEA wants to be part of a wide movement in the industry that develops Better Cotton as a mainstream product. By working together with others we can achieve so much more than if we work on our own.’

Guido Verijke,
Chairman, Better Cotton Initiative; Deputy
Business Area Manager Textiles, IKEA

IKEA has pioneered the move towards Better Cotton. What can others learn from its experience?

6.1 How close are IKEA cotton projects to matching the Better Cotton Initiative principles?

IKEA consciously decided to focus initially on agricultural practices rather than social issues. But the changes in farming it has introduced have had an impact on social issues by strengthening families' finances: this has improved areas such as women's and children's health, nutrition and access to medical care.

IKEA partners and NGO collaborators readily admit that promoting "decent work", one of the Better Cotton production principles (Box 3), is outside their core competencies. An independent verification in 2010-11 in Pakistan found that 70% of the projects it surveyed did not comply with the Better Cotton requirements, mainly due to the "decent work" criteria. IKEA and its partners recognize the need to cooperate with other organizations to address this challenge.

IKEA has a long history of working to prevent child labor, both through its code of conduct and through several social projects, initiated in 2000. The social projects include child-rights projects in cotton-growing areas of India and Pakistan, with Unicef and Save the Children as implementing partners. These projects began in 2006 and now cover more than 15,000 villages in several states, geographically overlapping the agricultural projects. They aim to create child-friendly communities by getting children into school and helping them to stay in

school and get a quality education. These programs will reach some 10 million children.

Workshops were held in February 2011 with the various implementing partners to identify activities to ensure decent working conditions and other aspects needed to comply with the full set of BCI social criteria.

6.2 Lessons from the IKEA experience

Creating linkages is harder than convincing farmers

The IKEA team that initiated the project thought that creating capacity – i.e., convincing farmers to switch to sustainable farming methods – would be a big challenge. In fact, this has proved relatively easy.

Farmers can see a direct impact on their profitability when they start using the new techniques. They are quick to learn from their neighbors' success. The number of farmers registering with the initiative has doubled or trebled in the second year in all the IKEA projects.

It is more of a challenge to create linkages along the value chain – ensuring that ginners buy cotton from registered farmers, avoid mixing it with conventional cotton, and offer it for sale to spinners, who in turn process it separately from regular cotton.

Motivating **ginners** to participate in this supply chain has been a weak link, since ginners do not gain a price advantage from moving towards Better Cotton. Some ways to persuade ginners to become involved:

- Clarify to the ginners that they will not need to pay a premium to the farmer. They can buy cotton from registered farmers at the regular market price, which depends on the grade and quality of the yield. Ginners do not have to change their procurement methods, since in most cases the same farmers who sold them conventional cotton are now supplying them the more sustainably grown version.
- Segregating batches and avoiding contamination among them during ginning and pressing are inherent in the ginning process for different qualities of seed cotton. So processing Better Cotton does not necessarily add to the ginner's costs.
- Establishing links between ginners and yarn suppliers who are part of the IKEA supply chain will ensure timely pickup of the cotton bales. This in turn minimizes the warehousing and financial cost of maintaining stock. Ginners are also free to sell the cotton from IKEA projects as conventional bales if demand is low.

In the first year that IKEA implemented this procurement approach, **suppliers** were often guided towards participating ginners. This was not always a welcome move as it implied establishing new business relationships between the two parties, as well as the additional costs associated with procuring bales from new locations further from the suppliers' current source base. Because of this, the process was modified: the IKEA team identified key ginners for each supplier and motivated them to join the initiative.

Efforts to increase the scale

Consistent, **high demand** would ensure that ginners could market bales of cotton that comply with some or all of the BCI criteria with the same efficiency as conventional bales, without having to hold them in stock. Large retailers can generate such demand: they can demand sufficient quantities of such bales so that spinners and ginners find it worthwhile to produce the product without any price incentive. With other brands and retailers joining IKEA in the Better Cotton Initiative, a critical mass of demand can be achieved. The Better Cotton Fast Track Fund has been established to hasten this process.

It is also important that demand for the new type of cotton does not exceed the supply, as this would result in higher prices and defeat the purpose of creating a commodity item.

The **volume and geographical spread** of production capacity for the new type of cotton needs to be increased as more retailers and brands and their suppliers join the Better Cotton Initiative.

Within India, widening the geographical scope of cultivation would ensure that ginners can access cotton of different staple lengths and diameters so they can blend it to get the quality they need. This is currently possible in conventional cotton, but not yet with IKEA project cotton, as it is grown only in certain areas, so there is a limited supply of different qualities.

In areas where volumes are low, ginners are compelled to buy the entire project cotton harvest at one time, thereby losing out on the opportunity of price averaging by buying at various price points during the season.

Creating Better Cotton capacity in other countries would reduce the risk for importers of lint who currently depend on India for their supply.

Each type of product requires a **different quality of cotton**. Home textiles such as curtains and carpets, for example, use short fibers that are left over from spinning finer yarns. Producers of these items derive their raw materials from many different spinners, making it harder to trace that it in fact complies with the BCI criteria.

Partnerships to create critical mass

It is essential that brands and retailers view the Better Cotton Initiative as an opportunity to work as **partners** in the creation of a new cotton commodity, to share learning and best practices. There is an opportunity as well for the various NGO partners associated with the current IKEA projects to have a common platform to learn from each other's approaches. Such a platform could enable them to see where commonalities could help them make their projects more efficient, while keeping the differences among their operational areas in mind.

Key players such as large ginners and vertically integrated suppliers who believe in and own the process are vital to achieve a **critical mass**. The role played by a supplier such as Abhishek Industries in Punjab, and ginners such as S. Raja and Patel Cotton Industries in Gujarat, underlines this observation. Such actors could also help convert the current "pull" strategy (whereby retailers or brands drive demand that stimulates the Better Cotton chain) to a situation where suppliers begin to offer this new commodity to other customers. Most suppliers have commented that they see benefit in switching their entire production to Better Cotton if capacities were built up to a suitable volume.

Brands and retailers should create a **dedicated core team** – both at headquarters and on the ground – to manage and follow through this initiative, to identify an appropriate business model, liaise with partners, and ensure that business units in their organization incorporate Better Cotton into their business goals.

Marketing Better Cotton to consumers

Public communication about how IKEA is moving towards Better Cotton is limited: it is restricted to its annual sustainability report and a mention in its catalogue that its "DVALA" bed linens are made from cotton produced using fewer agro-chemicals and less water.

This limited communication⁸ is a deliberate part of the company's strategy. Its involvement in Better Cotton is guided by a sense of "doing the right thing" as opposed to seeing it as an opportunity to market its brand. IKEA labels its home furnishing products exclusively with the IKEA logo as it wants customers to know that this stands for products that are safe and produced with respect for people and the environment. As this applies to the entire IKEA home furnishing range, the company has chosen not to use any labels for certification, e.g., of social and environmental responsibility.

Spill-over benefits on the environment

Many farmers have switched to more environmentally friendly practices: more than the current ginners can handle. The remainder of their output thus enters the conventional cotton supply chain. This implies that the work towards Better Cotton has major spill-over benefits: farmers are improving their farming practices and making more money, regardless of whether their cotton goes into a segregated Better Cotton value chain. Every farmer who moves towards Better Cotton is a step towards alleviating the original environmental concerns that prompted this initiative.

Involving the local textile industry and government

So far global retailers, brands and development agencies have led the Better Cotton Initiative. But for the long-term continuation of the initiative, it is important that players in the **local textile industry** (retailers, brands, spinners, weavers, etc.) become involved. Increased awareness among major Indian corporations is key to extending the initiative to the local market. Such companies could also be potential partners in the Better Cotton Initiative.

⁸ <http://tinyurl.com/nk9d93>

Informal partnerships with **local government bodies** are already present in some of the IKEA projects. One of the organizations with whom WWF has partnered in Aurangabad is a semi-government organization with pan-India presence: Krishi Vigyan Kendra (KVK), an arm of the Indian Council of Agricultural Research (ICAR). In addition to this, there is support and cooperation with research organizations such as the Central Research Institute of Dryland Agriculture, also part of ICAR. The Punjab project has created linkages with Punjab Agricultural University, thereby bringing training and education opportunities directly to the project villages.

Another model being proposed by WWF has an element of government involvement through a **public-private partnership**. This could evolve into a scenario where local government agencies, state agriculture extension workers and others get more involved in working with farmers.

IKEA believes that for the long-term sustainability of this initiative, involvement with **state-level government organizations** is essential. As an example, the state of Gujarat has created a dedicated organization, the Gujarat Green Revolution Company, to promote micro drip-irrigation systems in the state. Such an organization would be a likely choice for further government partnerships. The Better Cotton Initiative might be more suitable as a leader for such an initiative than an individual retailer, brand or NGO. The Better Cotton Initiative plans to set up national stakeholder councils to support this work in 2011.

An exit strategy for IKEA

IKEA expects that each of its projects will ultimately become self-sustaining. It has not yet set a target date for this, especially as implementing the “decent work” criteria is expected to take time.

Eventually, IKEA expects its first contact with Better Cotton to be when bales are bought from the ginner. IKEA would no longer be actively involved in creating capacity or in forming farmer-to-ginner linkages. But this depends on how quickly Better Cotton Initiative operations in the region develop and mature. Until such a time, IKEA plans to stay actively engaged so as to meet its target of sourcing 100% Better Cotton.

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Acknowledgements

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