



## CORPORATE TRANSFORMATION SERVICES

# A&M HELPS LEADING EUROPEAN RETAILER TO DELIVER ON ITS SUSTAINABLE COTTON PLEDGE

### Introduction

Companies of all sectors are committing to sustainability targets as environment, social and governance (ESG) values become more critical to businesses and consumers than ever before. In retail, one of the key focuses of sustainability strategies has been the responsible sourcing of raw materials such as cotton.

Our client, a leading European retailer with a significant apparel business division, has engaged Alvarez & Marsal (A&M) practitioners in late 2021 to help develop an organic cotton procurement and supply chain model aimed at supporting the company's ambitious sustainability goals.

Cotton production requires lots of water and relies heavily on agrochemicals, including pesticides that contaminate soil and groundwater and affect farmers' health. In contrast, organic cotton prohibits the use of toxic chemicals or genetically modified organisms and is less water intensive.

The client's goal was that the majority of the cotton supply channels used for its brand of textile products should come from organic plantations by 2025.

### The business challenge

The business faced several obstacles in achieving this target. First, demand for organic cotton has risen exponentially in recent years as more apparel brands convert to the organic fibre, with the shortfall in supply expected to reach around

130,000 tonnes by 2024-25 globally, according to an analysis by A&M. This has made securing high volumes of the raw material uniquely challenging.

The market price for Organic cotton was very high due to instability in the market, with a premium ranging from 35% to 50%+, impacting significantly the product price negotiation of the client. Finally, the organic cotton value chain is complex and long, meaning that for a lead time of three to four years, capacity creation needs to happen immediately.

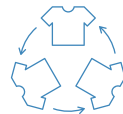
**In light of this, A&M identified five key objectives for the client in achieving its organic cotton target:**



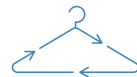
**1** Stabilisation of premiums of organic cotton vs conventional



**2** Securing organic cotton volumes



**3** Improving control over the supply chain



**4** Solving for logistic delays causing cost overruns and missed sales



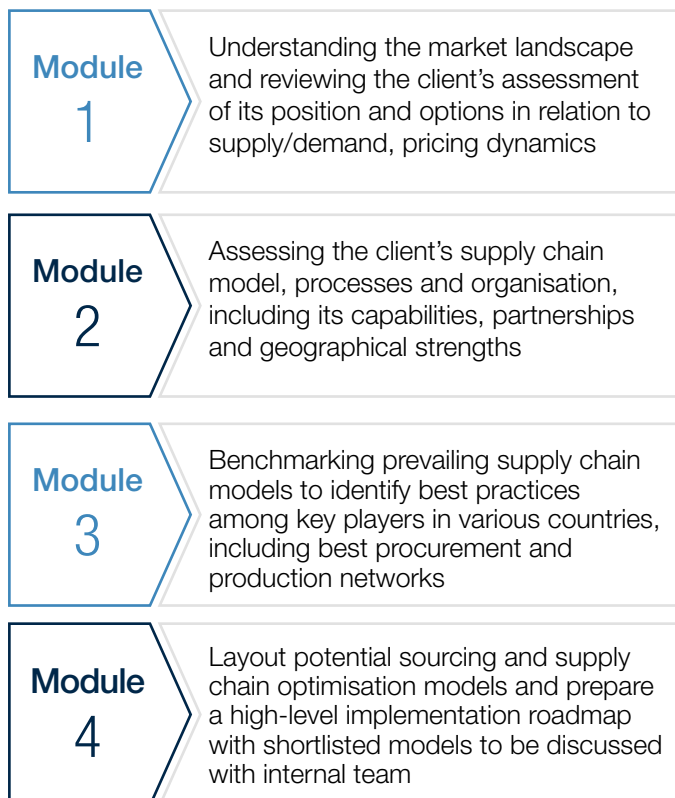
**5** Optimising manpower resourcing and time allocation



## A&M's solution

Our approach to the problem consisted in developing a sourcing and supply chain optimisation model that would allow the client to achieve its apparel sustainability goals by 2025. The ultimate objective was to provide practical solutions along the cotton value chain to secure quantity, quality and price of the product over the years.

The project was divided into four modules:



## Key recommendations

As part of our review, we assessed various procurement models being utilised by leading companies in the apparel and textile market. Each model offered different levels of intervention and ties with partners, for example from having fully vertically integrated suppliers to engaging directly with farm groups.

The shortlisted models were discussed with the relevant stakeholders including non-governmental organisations, spinners and garment suppliers in Asia to assess their feasibility and strengthen the recommendation. It emerged that a combination of three models was the most suitable solution for the client's goal.

**A&M also developed a comprehensive roadmap for implementation of the model, covering four areas:**

- Acquiring new talent and resources including a dedicated sustainability team and farm group manager
- Adapting internal processes including adaptation of collection retro-planning processes
- Investing in network & infrastructure including in logistics & inventory management through third-party contract
- Leveraging tools and technology including robust forecasting tool for improving accuracy of required volumes and grades

## Benefits of custom-designed model

Some of the benefits of the suggested hybrid approach include:

- Improved controlled quality across the entire chain
- Stability and lower premium
- Long term business relationships with key value chain partners
- Better ability to plan ahead
- Multi-year volume security/assurance of supply





## Impacts

The recommended model has the potential to secure 15,000+ tonnes of organic cotton by 2027 at a 15%-20% premium, with savings of at minimum €20+ million in the next five years if cotton premiums are kept above 35%.

## Why A&M

A&M was selected based on an extensive track record working with leading business through tough, complex situations. Critically, the team of senior A&M experts had

experience working on similar business challenges with leading retail and textile groups across geographies, including in procurement of sustainable commodities in India, China and Africa, providing a strong understand of the client's needs and the methodology.

The team's relevant sustainable cotton sourcing experience and in-depth textile value chain know-how provided an edge as it allowed us to rapidly identify key areas for attention and recommend relevant action. Some team members had worked with the client in the past and understood the organisations and its internal processes well.





## A&M: Leadership. Action. Results.<sup>SM</sup>

A&M has worked with some of the largest European and global organisations to stabilise financial performance, transform operations and accelerate growth through decisive action. Our restructuring and turnaround heritage brings fact based, action-oriented leadership to transformations, delivering rapid results.

Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations. To speak to us about our experience delivering transformation and performance improvement initiatives for leading businesses, please visit our website or speak to one of our contacts below.

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### ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 6,000 people across five continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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