Committee of Home Textiles Producers

Meeting in Frankfurt/Germany, on January 14, 2012

MINUTES

Participants

Austria  Susanne JARY (Lenzing AG)  Johann LEITNER (Lenzing AG)

France  Hubert DU POTET (Fédération Française de l'Industrie Lainière et Cotonnière)  Benoît HACOT (Fédération Française de l'Industrie Lainière et Cotonnière)

Germany  Donata APOLT-IHLING (Alfred Apelt GmbH)  Kai ENGE (A.T. Kearney GmbH)  Elke HORTMEYER (Bremer Baumwollbörse)  Olaf SCHMIDT (Messe Frankfurt Exhibition GmbH)

India  Mohit JAIN (Indocount Industries Limited)  K.V. SRINIVASAN (Premier Mills Pvt. Ltd.)

Int.Org.  Terry P. TOWNSEND (International Cotton Advisory Committee)

Italy  Gian Luigi Gregotti BORASIO (La Casa Italiana - Gruppo Bossi)  Filippo ZUCCHI (Vincenzo Zucchi S.p.A. - Zucchigroup)

P.R. China  Ernst SANDRIESER (Lenzing Aktiengesellschaft)  Yi WANG (China Home Textile Association)  Xiao Lei WANG (The Sub-Council of Textile Industry, CCPIT)

Pakistan  Bashir H. ALI MOHAMMAD (Gul Ahmed Textile Mills Ltd. & ITMF President)

Press  Robin ANSON (Textiles Intelligence)  Belinda CARP (Textiles Intelligence Ltd.)

Turkey  Ali Sami AYDIN (Turkish Home Textile Association)  Hasim BÜYÜKBALE (Turkish Home Textile Association)  Kutsal DURACÉ (Turkish Home Textile Association)  Erhan ÖZKAN (Er-Fun Tekstil San. Ve Tic. Ltd. St.)  Serdar SÜTCÜOĞLU (Anka Danismanlık Tekstil Sanayi ve Ticaret Ltd. Stil)


ITMF  Christian P. SCHINDLER

In the Chair  Benoît HACOT
Opening Remarks

Mr. Benoît Hacot (France), Vice Chairman of the Committee, opened the meeting by welcoming everyone to this 3rd meeting of the Committee at Heimtextil in Frankfurt/Germany. He expressed his satisfaction to see so many persons from different regions of the world attending the meeting and was especially glad to welcome Mr. Bashir Ali Mohammad, the President of ITMF.

Welcome Remarks by ITMF President

Mr. Bashir Ali Mohammad thanked Mr. Hacot for the kind introduction and also welcomed the participants. He especially thanked the two speakers, Dr. Terry Townsend (ICAC) and Dr. Kai Engel (A.T. Kearney), for having made the effort to join the Committee and presenting their papers. He emphasized that it is important for producers of home textiles to meet from time to time exchanging information and experiences and discussing developments and strategies to better adapt to an ever changing business environment.

Welcome Remarks by Messe Frankfurt

On behalf of Messe Frankfurt, Mr. Olaf Schmidt, Vice President, Messe Frankfurt Textile Fairs, welcomed the Committee members. He reported that 2'634 exhibitors from 61 countries participated in Heimtextil 2012, equivalent to an increase of +2.4%. He stated that the frequency and quality of the contacts was very satisfying for the exhibitors, irrespective of the reduced numbers of visitors (-5% to approx. 700'000). Mr. Schmidt stated that the fall in the number of visitors was a result of the European debt crisis as visitors from countries with debt problems like Greece, Italy, Spain, Portugal, etc. were lower than in 2011. The countries with the highest records of visitors next to Germany were Italy, Turkey, China, Great Britain, USA, France, Spain, Russia, the Netherlands and Poland. The share of foreign visitors was again around 65%. Mr. Schmidt pointed out that the German home textiles industry was able to increase its turnover by +4.6%, mainly due to strong domestic demand. This positive development is set to continue in 2012 as demand for home textiles in Germany is expected to grow also in 2012. Mr. Schmidt stated that such meetings complement very well Heimtextil and wished the meeting fruitful discussions.

Update: Pass-Through Analysis of Cotton Prices

An update of the research paper “Pass-through Analysis of Cotton Prices” (see attached document no. 1) was presented by Dr. Terry Townsend, Director General of the International Cotton Advisory Committee (ICAC). The main finding of the research paper is it took cotton prices which were rising since August 2010 approximately 9 months to feed through the value chain before apparel prices at retail level started actually rising significantly. While indexed cotton prices peaked in June 2011 (+83%), the apparel consumer price index in the US only started rising in May 2011 and rose by 5% until November 2011. It is expected to peak in the second quarter of 2012. What is interesting to see is the relationship between import and retail prices of apparel. While import prices of apparel rose by 26%, retail prices of apparel rose by 5%. Sourcing costs for retailers continue to climb while it appears that retailer have difficulty in passing along higher sourcing costs. Obviously, this is mainly due to a relative weak US economy. On this occasion it is worth noting that the apparel consumer price index in the US peaked in 1983 but has been declining from 143 to 122 in 2010.

Volatile Cotton Prices and the Consequences for the Textile Value Chain

The discussion showed that the main challenge for producers of textiles and apparel was in 2012 to be squeezed between high input costs and limited scope to pass them on at retail level. Weaker global demand and expansion of production capacity led to intensified
competition between textiles producers. As a result there are more companies that are reducing or stopping production or that are closing down for good.

The discussion showed that as far as rising cotton prices are concerned several reasons can be listed. First, demand and supply were not in balance in 2010/11 when the global economy recovered much stronger from the global recession and global inventories were relatively low. Second, there was strong competition from alternative (food) crops which reduced the supply of cotton. Third, production costs of cotton have more than doubled in the past decade from USD 700 to USD 1’500. Today the world average costs (without land costs) for the production of one kg of cotton lint are approx. USD 1.15.

It was noted in the period of rising cotton prices many retailers were afraid that they would not receive enough products for their shelves thus encouraging textile manufacturers to secure cotton at high prices. But once cotton prices started plummeting again, retailers deferred shipments and/or wanted to renegotiate existing contracts. One result of the extreme volatility of cotton prices is that retailers are trying to reduce big orders as opposed to smaller lots on a more frequent basis.

The Committee agreed that the retailers’ strategy to renegotiate contracts is not acceptable but that in practice very often manufacturers do not have a choice to accept the conditions “dictated” by the retailers if they want to stay in business. It was discussed whether ITMF should play a role in informing the public about such business practices that are creating a lot of pain to the entire textile industry. It was suggested to consider whether ITMF could provide information to the media and the public about bad business practices thus creating awareness and more transparency. In addition or alternatively it was suggested to discuss with all partners along the textile value chain (from fibre to retail) issues of common interest in order to better understand each other challenges and constraints and thus to develop together strategies to overcome problems and challenges in the future. ITMF’s Textile Value Chain meetings in New York and Frankfurt 2011 could serve as an example. In these meetings representatives from the cotton, textile and retail industry met to learn more about the reasons for soaring cotton prices and the possible consequences and risks involved.

Enhancing Competitiveness via Operations Benchmarking against Best Practices

Dr. Kai Engel from A.T. Kearney, a leading consultancy in the operations space, presented possible options for operations benchmarking against best practices to support in a systematic way the continuous improvement of ITMF members’ competitiveness (see attached document no. 2). A.T. Kearney has six proven and globally well-established benchmarking methodologies covering all relevant operations areas of the textile industry: 1) Procurement, 2) Production, 3) Logistics, 4) Complexity Management and 5) Innovation Management (two different benchmarks). These benchmarks can be adapted by A.T: Kearney to the specific requirements of the home textile industry.

Next to concept of offering operations benchmarking Dr. Engel also presented the idea of specific and regular market study/trend radar that can help to understand the needs for change earlier. Such a market study/trend radar is produced by A.T. Kearney in conjunction with CHEManager Europe and the Westfälische Wilhelms-Universität Münster/Germany for the chemical industry (“Chemical Customer Connectivity (C3X) Index). The survey comprises the view of senior executives of leading European chemical companies and decision makers from customer industries.

The Committee discussed in general whether operations benchmarking and or specific market studies are of interest to the home textile industry and if so, what the most appropriate next steps will be in order to benefit best from the insights available. Participants showed interest in such operations benchmarking though it was difficult to imagine how exactly such a benchmarking process for the home textiles industry would look like, how
much time and information would be required and how it would be conducted. The Committee agreed to circulate among the participants of the meeting as well as other interested members of the Committee of Home Textiles Producers a questionnaire to identify the areas of interest and to assess the feasibility of such benchmarking. It also suggested circulating more information on A.T. Kearney’s market study (e.g. example of the chemical industry).

The Global Home Textiles Industry – Data on Production (Value/Volume)?

At the meeting of the Committee in September 2011 in Barcelona/Spain Mr. Robin Anson, Editorial Director, Textile Outlook International, presented a short summary of the report “World Markets for Home Textiles: Focus on Home Linen and Profiles of Leading Players” (Textile Outlook International, No 151, July 2011). The following discussions showed that there is a general interest in data on the value/volume of global home textile production. The members of the Committee agreed that it lacks on publicly available information on the home textiles industry and that a lot of work is necessary to compile relevant data on global home textiles production.

Mr. Anson presented the idea of establishing a new publication “Home Textiles” focusing on the home textiles industries that will provide general information that is relevant to the home textile industry. A similar publication (Global Apparel Markets) for the apparel industry is already published by Textile Outlook International (see the following link: http://www.textilesintelligence.com/tisgam/). Mr. Robinson and his team have in the meantime produced the first issue of “Home Textiles” (see attached document no. 3). They would be most thankful to receive feedback on this first issue in order to further the development of the format and meet the expectations of the customers. For any comment please email to: editorial@textilesintelligence.com.

In the light of the difficulty to compile information on global production data of home textiles the Committee agreed that it would be good for a start analyzing trade data made available by the EU, the US and other institutions.

Next Meeting

It was agreed to meet again in conjunction with the ITMF Annual Conference 2012 (November 4-6, 2012) in Hanoi/Vietnam.

January 2012
Pass-Through Analysis of Cotton Prices

ITMF Annual Conference
Jon Devine & Alejandro Plastina

Record Prices, Record Volatility

Source: Cotlook

2010/11 Cotton Prices in Context

2010/11 85 cents/lb higher than 2009/10

Indexed Price Movement

Indexed Price Movement

A Index

index August 2010 = 100

+154%

Indexed Price Movement

A Index

Landed Fiber (A Index countries)

index August 2010 = 100

+83%

Indexed Price Movement

Yarn Index

index August 2010 = 100

+67%

Indexed Price Movement

Yarn Index

Landed Yarn (China & Hong Kong)

index August 2010 = 100

+67%

+43%

Indexed Price Movement

Index August 2010 = 100


+83%

+43%

Indexed Price Movement

Index August 2010 = 100


+83%

+43%

+46%

歌声价格变动

指数8月2010年 = 100


+83%

+43%

+46%

歌声价格变动

指数8月2010年 = 100


+83%

+43%

+46%

歌声价格变动

指数8月2010年 = 100


+83%

+43%

+46%
Indexed Price Movement

Indexed Price Movement

Prices for Textile Categories

• Marginally greater change in home textile prices

Prices for Apparel Categories

• Cotton fiber is not the only source of increased costs
  – Labor
  – Energy
  – Exchange rates (China)
### Summary of Price Movement

<table>
<thead>
<tr>
<th>Source</th>
<th>Month of Peak</th>
<th>Magnitude of Peak (versus Aug. 2010)</th>
<th>Lag of Peak Relative to A Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quoted Prices</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Index</td>
<td>March</td>
<td>+154%</td>
<td>n/a</td>
</tr>
<tr>
<td>Yarn Index</td>
<td>March</td>
<td>+67%</td>
<td>contemporaneous</td>
</tr>
<tr>
<td><strong>Landed Prices</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiber</td>
<td>June</td>
<td>+84%</td>
<td>3 months</td>
</tr>
<tr>
<td>Yarn</td>
<td>May</td>
<td>+43%</td>
<td>2 months</td>
</tr>
<tr>
<td>Woven Fabric</td>
<td>June</td>
<td>+46%</td>
<td>3 months</td>
</tr>
<tr>
<td>Cotton-Dom. Apparel</td>
<td>n/a</td>
<td>+26%</td>
<td>&gt;9 months</td>
</tr>
<tr>
<td>Retail</td>
<td>n/a</td>
<td>+5%</td>
<td>&gt;9 months</td>
</tr>
</tbody>
</table>

Co-operation Options ITMF/A.T. Kearney

Discussion with the Committee of Home Textile Producers

Frankfurt, January 14th, 2012

Dr.-Ing. Kai Engel  
Operations Practice Lead  
Partner  
Düsseldorf  
+49 175 2659 496
Objective: Evaluate the attractiveness of an ITMF/A.T. Kearney co-operation

Motivation

<table>
<thead>
<tr>
<th>ITMF Home Textile Producers Situation</th>
<th>Idea</th>
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</thead>
<tbody>
<tr>
<td>Well established industry association and platform for exchange among members</td>
<td>Increase the attractiveness of the ITMF as an association and helping association members to improve their competitiveness faster: ahead of peers.</td>
</tr>
<tr>
<td>Looking ahead 10 years, dynamic changes and shifts in balance of the global economy will influence the industry</td>
<td>Measures can be e.g.</td>
</tr>
<tr>
<td>Aiming at profitable growth foresight and agility to react to changing environment will be key and even more required to steer companies successfully through the years ahead</td>
<td>Creating and running a systemized global trend radar (annual or bi-annual)</td>
</tr>
<tr>
<td>Systematic Trends and Best Practice Sharing within and with other industries to accelerate learning curves might be very attractive</td>
<td>providing association members access to a broader set of professional services exclusively, e.g. to proven Cross Industry Operations Best Practice Benchmarking approaches</td>
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</tbody>
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</table>

Source: A.T. Kearney

A.T. Kearney xx/mm/yyyy/00000
A.T. Kearney is a global firm with 54 offices in 37 countries

- **Global footprint:** 54 Offices in major business centers in 37 countries
- **Resources:** More than 2,700 employees
- **Success:** Consulting fees of more than US$1 billion in 2011
- **Recognition:** Ranked 11th of 236 firms in "Best Firms to Work For 2009"

Source: A.T. Kearney
Independent studies confirm A.T. Kearney’s leading position – especially in Operations Consulting

Ranking of consulting firms

<table>
<thead>
<tr>
<th>Rank</th>
<th>Operations Management</th>
<th>Supply Chain &amp; Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A.T. Kearney</td>
<td>A.T. Kearney</td>
</tr>
<tr>
<td>2</td>
<td>McKinsey &amp; Company</td>
<td>Management Engineers</td>
</tr>
<tr>
<td>3</td>
<td>Roland Berger</td>
<td>McKinsey &amp; Company</td>
</tr>
<tr>
<td>4</td>
<td>Management Engineers</td>
<td>Roland Berger</td>
</tr>
<tr>
<td>5</td>
<td>Booz Allen Hamilton</td>
<td>Droege &amp; Company</td>
</tr>
</tbody>
</table>

A.T. Kearney key differentiators:

- Combination of strategy and hands on implementation experience
- Deep global and regional industry knowledge
- Highly collaborative working style
- Senior consultants with a mix of consulting and industry background

Source: DGMF/WGMB – Prof. Fink; published in Manager-Magazin 08/2009
Specific and regular market studies/trend radars can help to understand the needs for change earlier

**Example Chemicals**

**Description**

- The **Chemical Customer Connectivity** (C3X) Index is performed by A.T. Kearney in conjunction with CHEManager Europe and the Westfälische Wilhelms-Universität Münster.

- Objectives of C3X is to **analyze the chemical industry from the vantage points of chemical companies and their customers**.

- The **survey comprises** the view of senior executives of leading European chemical companies and decision makers from customer industries.

Source: A.T. Kearney
Leverage our operations benchmarking capabilities can help to increase the effectiveness of change initiatives

A.T. Kearney’s Operations benchmarking offerings

<table>
<thead>
<tr>
<th>Functional focus</th>
<th>Initiative</th>
<th>Objectives</th>
<th>Frequency</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
<td>Benchmarking of procurement organization and processes to best practice</td>
<td>Bi-yearly</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>Benchmarking production practices with best global practice</td>
<td>Annually</td>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td>Logistics</td>
<td>Benchmarking best practices in logistics; following latest trends</td>
<td>Quinquennial</td>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td>Complexity</td>
<td>Self-assessment of excellence in complexity management (online tool)</td>
<td>Ongoing</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>Benchmarking of innovation organization and processes to best practice</td>
<td>Annually</td>
<td>Global</td>
<td></td>
</tr>
</tbody>
</table>

For discussion

Source: A.T. Kearney
Assessment of Excellence in Procurement (AEP) benchmarks company’s excellence in Procurement

Excellence in Procurement

AEP Key Findings

- Overall findings
- Comparison of your responses with leaders and followers

Your Results

- Executive Summary & results by dimension
  - Supply Management Strategy
  - Organizational Alignment
  - Sourcing & Category Management
  - Supplier Relationship Management
  - Operating Process Management
  - Performance Management
  - Knowledge & Information Management
  - Human Resources Management

- Absolute and relative performance

Recommendations

- Information on improvement opportunities by dimension
- Detailed levers to raise procurement to next level of excellence
- Information on possible constraints
- Roadmap

Source: A.T. Kearney
Factory of the year benchmarks production units through variety of different industries

Excellence in production

<table>
<thead>
<tr>
<th>Factory of the year</th>
<th>GEO award</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Annual benchmarking study that compares practices of production companies with best practices</td>
<td></td>
</tr>
<tr>
<td>• Emphasis of the study is to gather and follow best practices in production on the global level</td>
<td></td>
</tr>
<tr>
<td>• Factory of the year benchmarking is based on an in-depth and comprehensive benchmarking questionnaire</td>
<td></td>
</tr>
<tr>
<td>• Study has been done by A.T. Kearney since 1992</td>
<td></td>
</tr>
<tr>
<td>• The GEO award for “Global Excellence in Operations” is given every year since 1999</td>
<td></td>
</tr>
<tr>
<td>• GEO awards above-the-average operations in the whole value chain</td>
<td></td>
</tr>
<tr>
<td>• Companies that wish to cooperate have to define a business unit for which success is tracked (by using financial data)</td>
<td></td>
</tr>
</tbody>
</table>

Factory of the year benchmarking is a standardized tool to compare company’s excellence in production organization and processes

Source: A.T. Kearney
European Logistics Association, together with A.T. Kearney, prepares benchmarking of logistics operations

Excellence in logistics

Objectives of the benchmarking

• Benchmarking of the European Logistics Association (ELA) is continuously done since 1982

• ELA is one of the most known and best benchmarking tools for best practices and latest trends in logistics in Europe

• ELA benchmarking is based on in-depth and comprehensive benchmarking questionnaire

• Study has been done by A.T. Kearney since 1982

ELA benchmarking has a long tradition and therefore and in-depth database that offers good benchmarking of company’s logistics operations

Source: A.T. Kearney
The need for complexity management excellence as a capability is driven by increasing product proliferation.

Excellence in complexity management

- Blindness: no transparency, no control
- Laying the groundwork to enable active complexity management
- Advanced complexity management
- State of the art complexity management

- Create complexity costs transparency
- Introduce cross-functional complexity teams
- Define KPIs
- Adapt IT systems

- Extend strategy and differentiate by business type
- Pursuit full activity-based costing
- Analyze across entire value chain
- Optimize IT

- Introduce complexity optimization philosophy to corporate culture

- CM embedded in corporate strategy
- Strategy differentiated by business type
- Customer requirements analyzed
- Cross-functional and cross-value-chain teams
- Organization, processes, IT systems aligned
- KPIs and MBOs in place

Excellence in complexity management is the latest self-assessment tool that evaluates company’s performance along the four stages.

Source: A.T. Kearney
The need for Innovation management excellence is driven by steep increases of costs to create differentiation.

Excellence in Innovation Management

**Best Innovator (large + mid caps)**

- >1500 companies from 17 countries
- Benchmarking is based on A.T. Kearney’s methodology in managing innovation
- Benchmarking is done by online questionnaire

**IMP³rove (SMEs)**

- Innovation capabilities self assessment and Innovation Management - Consulting platform for SMEs
- Participants so far >3500

Excellence in innovation management is key to drive profitable growth

Source: A.T. Kearney
The advantages of the A.T. Kearney benchmarking approaches are multifold

Advantages of A.T. Kearney’s benchmarking initiatives

**Tangible benchmarking results**
- Benchmarking results offer concrete and ready-to-implement improvement measures

**Benchmarking to extensive databases**
- Benchmarking databases are in-depth and comprehensive due to long traditions of benchmarking initiatives
- A.T. Kearney’s tools offer benchmarking of different business areas: procurement, production, logistics, complexity management and innovation management

**Areas of benchmarking**
- All companies that do the benchmarking receive a customized feedback report that outlines identified improvement measures

**Customized feedbacks**
- All benchmarking initiatives are mostly made through internet and standardized, which ensures full comparability

**Standardized and mostly online tools**

Systematic benchmarking offers opportunities to become more effective and faster in adopting to trends and creates long-term competitive advantages

Source: A.T. Kearney
Exclusive access to A.T. Kearney’s thought leadership publications can help to speed up learning curves

Source: A.T. Kearney