

**COTTON AND TEXTILES:
A STRATEGIC PARTNERSHIP**

**John A. Boland, III
President and CEO
Dominion Textile Inc.
Montreal, Quebec, Canada**

Abstract

The very significant coalition between the US textile industry and the US cotton industry, its most important raw material supplier, represents an alliance masterfully crafted long before "strategic partnerships" came into popular business vernacular. However, the factors contributing to its success are not altogether appreciated nor fully understood by its participants. Our success going forward will require new insight and bold new commitments. Our collective stewardship of this visionary initiative requires that we take pause to examine the economic realities and to consider the new dimensions of consumer demand that will shape our future.

Introduction

I consider it a rare privilege to be invited to address this the first general session of the National Cotton Council's Beltwide Cotton Production Conference.

For almost 25 years I have engaged in a "love affair" with this great textile industry. I have experienced the pain of its arrogance, the humility of its ignorance, the joy of its discovery, and the excitement of its revival. I have a working knowledge of its fundamental issues, and I am sufficiently suspicious of its preoccupation with elegant solutions. Ours is a fascinating industry, a small fraternity, in which the initiation fee is satisfied in just two currencies: knowledge and relationships.

I believe the NCC is like that, a not so small but nonetheless very close fraternity that thrives on sharing knowledge and on cultivating meaningful relationships. The National Cotton Council is a unique coalition. Within this diverse association, we have come together as leaders sharing responsibility, and as competitors seeking partnership.

For the next twenty minutes I would like to review with you, a "customer's perspective" of some of the more important factors that have contributed to a doubling of US mill cotton consumption over the past decade, to examine the corollary investment that has taken place in the textile industry, and to explore with you the new economic realities and the new dimensions of consumer demand that will shape the future that we will navigate together.

Competitive Stimulants

National Cotton Council

I am not a politician and I seek no office within the NCC, however I would be remiss if I didn't take this occasion to acknowledge this most effective forum and its agenda for constructive dialogue, learning, information exchange, and win/win solution discovery among its constituent members. Coalition building and strategic nurturing will become survival competencies in the global marketplace in our future. The experience and advanced learning curves that we enjoy within the structure of the National Cotton Council are fundamental to the progress we have made, the success that we have enjoyed thus far, and should serve as models that other industry interfaces should emulate. The Council's legacy of initiative, foresight, focus on the customer, relationship preservation, and commitment to win/win value creation, provide the confidence to stimulate the continued investment of our collective resources to shape our future together.

Cotton Incorporated

Value is both defined and ultimately rationalized in the marketplace defined by the customer. It is therefore appropriate that we acknowledge Cotton Incorporated's significant contribution in helping us discover customer preference, stimulating customer demand, and satisfying customer need. The doubling of US mill consumption of cotton and The National Cotton Council's market orientation, brilliantly orchestrated and superbly executed by Cotton Inc., is no coincidence. The continuation of a well-funded research and market promotion program are fundamental to the continued success of this cotton and textile coalition. Our collective focus on creating for our customers products and services that are new to the market, different from those offered anywhere else in the world, and important to our customers, must remain the primary objective that drives and preoccupies our every effort.

Price Competitiveness

The untenable spread resulting effectively in the two-price cotton market that existed internationally prior to the implementation of more market oriented farm legislation and the introduction of the marketing loan program in the 1986 crop year, has been largely reversed. Subsequently, the US cotton economy is much improved. We mark together this year, a decade of increasing US mill consumption of cotton, having reversed a 26-year downtrend in offtake, a 43-year downtrend in US mill consumption, and a 70-year decline in cotton's share of US mill fiber consumption. While these turnarounds were indeed dramatic and lead to new records for production and offtake, our coalition has become a significantly more competitive and influential force in the international cotton economy. Together we have the potential to shape and materially influence the winning industry structures of the future - wherever they may be located geographically. Global strategy has more to do with a way of thinking and

managing than it has to do with geography. I suggest to you that we are more attuned to that reality than might be obvious.

Product Quality, Consistency, and Reliability

Yes fellow constituents, there are competitive issues beyond price if we “legitimize the premium.” The US cotton supply and delivery system is without question the most reliable and consistently dependable in the entire world. When sufficiently superior to the alternatives, it can represent a dimension of value that can be legitimized. The US textile industry is demanding of its supply base. Our customers are intolerant and demanding of us. Our expectations of the US cotton industry for product quality, attribute consistency, specification compliance, legitimate value, and logistical integrity are high. The US cotton industry is clearly the preferred supplier of the US textile industry. We can deliver the finest textile and apparel products to any target market anywhere in the world, and we can do it together with the same appreciation for value and the same respect for product and service integrity that have made us successful in North America.

Market Information and Logistical Support

An informed customer is a significantly more satisfied customer and one better able to differentiate his product and to appreciate and utilize a broader range of the value attributes within a given product. The US cotton industry is learning to market fiber characteristics and product attributes rather than the archaic and blunt descriptors of cotton grade. The textile industry likewise, is learning to define its product requirements more specifically within those attributes and is subsequently better able to engineer products to better satisfy its customers. Information and a system of communicating and moving it with clarity and reliability among the supply chain is a significant value creator. We must continue to build the information systems that speed the exchange of information, increase significantly both the scope and the effectiveness of our partnership, and reduce by a quantum measure the inventory of decisions in process.

Risk Management Infrastructure

The seven member segments represented within the NCC have created a substantial commercial infrastructure, professionally managed, strategically aligned, and fiscally responsible. Perhaps because we communicate, understand, and seek solution to mitigate many of the commercial risks attendant to our industry within the relative comfort of this infrastructure, we are able to be pro-active, informed, and beneficial participants in the dynamic and efficient price discovery mechanism of the cotton futures and options markets. The ability to manage risk and to transfer it from those less willing to bear risk, to those more willing to do so, provides an immeasurable stimulant to the competitive health of the collective US cotton economy. The underlying strength and fundamental stewardship for agricultural policy exercised by the National Cotton

Council contribute significantly, in my opinion, to the infrastructure that makes risk management flexible and affordable competitive advantages for the US cotton textile industry.

Confidence, Investment, and The Future

Confidence is the well-spring of new investment. Indeed, the NCC agenda I referred to earlier characterized by initiative, foresight, focus on the customer, relationship preservation and commitment to win/win value creation, coupled with the more market oriented farm legislation of 1985 and 1990, have provided a material stimulant to the investment confidence of the US textile industry.

Textile investment in new plant and equipment in the US alone has exceeded \$25 billion over the decade. The industry today invests almost 5% of its sales, 1.5 times depreciation, or an amount equivalent to 100% of its after-tax profits in new property, plant, and equipment, annually. Ours is a mature, fiercely competitive, capital-hungry industry. Our investment reflects confidence yes, but it also reflects the new realities of the technological revolution in which we are engaged, the fiercely competitive international marketplace in which we participate, and our anticipation and preparation for the new dimensions of demand that will be shaping our future.

The future that we talk about today is not inevitable. It is our job to anticipate it, to prepare for it and to learn to shape and to manage it.

Peter Drucker: *Managing for the Future*: ‘None of us are futurists. We can only strive to observe those events which have already transpired, but whose impact has not yet been recognized by those less alert.’

: *The Effective Executive*: ‘The customer is rational in his own economy. It is but our job to understand it.’

For the few remaining moments I have with you I would like to share with you a few thoughts about the future. I will do so by identifying with you a few events that have already transpired and in so doing will try to explain in a rational perspective the economy in which your customer, the textile industry, will operate.

Real Prices are Declining

In a mature industry the relative influences of supply and demand become more balanced and subsequently the issues that separate winners from losers revolve around the clash between a company’s perception of the value for the product it offers and the market’s perception of the value for the same product. Too often, the perceptions have nothing in common. The perception of the company supplying the product is too often based on the effort that they had to put into the product, while the perception of the value of the market is based on the benefits gained from using the

product . Prices and quantities sold are determined more and more by the market's perception of value and less and less by the supplier's perception of value. More than ever, satisfying the market's perception of value is the key to success. The pendulum has swung to the market side, unrelated to the relation between supply and demand.

When competition becomes very fierce - as it is in the mature sectors of the internationally competitive textile industry - and as it can rapidly become when the industry is fueled by a technological race, or when companies throw new products into the market every few months, in such cases prices will continue to go down, even when demand is higher than supply. Even in relatively higher technology, and higher capital barrier segments we can not expect that continued recovery will necessarily lead to increases in product prices.

Inflation adjusted "real prices" - even after raw material costs - are declining at increasingly rapid rates in many commodity textile sectors. Even at the commercial level, we are experiencing retail price deflation in certain significant apparel sectors.

Strategy and the Cost of Capital

Despite the impressive investments made by the textile industry over the past decade, the industry - as a whole - is not earning its cost of capital. Real price decreases for many commodity products coupled with higher capital investment in new technology to preserve margins already too modest, are a certain combination for a slow and agonizing death. The textile industry cannot merely "repackage raw material" and generate the returns necessary to earn its cost of capital. We must discover new ways of creating greater value for our shareholders by applying intellectual capital to new and innovative products and services for our customers wherever located. The new dimensions of demand are speed, flexibility, innovation, new product variety, delivered with reliability and at good value anywhere in the world. The new currency most precious to the consumer at retail today is time, energy and loyalty.

Getting to the Future First

The US textile industry has not yet realized the full potential, nor developed the mind set or the processes required of us to legitimately exploit the advantages of globalization. I am personally convinced that the successful textile enterprise of the future must be fully integrated into and positioned throughout both the developed and the developing markets of the world. The modern textile paradigm would suggest that the customer base we serve must choose between quick response and superior quality from North America or lower cost and flexibility from the Far East. We are an "either / or" industry trying to serve a "both / and" retailer. However, I believe we have within our coalition parts of the basic equation to provide both a new level of relationship and

service partnership to the world's most formidable manufacturers and retailers. In many cases their industries are already far more global than is ours. The opportunities to "get to the future first" are significant.

The New Dimensions of Partnership

The new dimension of partnership in the next decade will require that we create the infrastructure. If we but subscribe to the very successful agenda practiced within the National Cotton Council and maintain the integrity of our coalition, we can go together, and supplant anyone that gets there before we do.