

BENCHMARKING THE COTTON DIVISION'S SPOT COTTON QUOTATIONS

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Abstract

In 1995, the Cotton Division, AMS, USDA completed, at the request of its parent organization, the Agricultural Marketing Service (AMS), a project involving a customer survey and benchmarking against Cotlook, Ltd. of Liverpool, England. Neither the customer survey nor the benchmarking project gave any indication that the Cotton Division should make major changes in its Spot Cotton Quotations Program. Significant changes in the spot quotations program will be made in response to requests by a unified cotton industry and after a change in existing legislation.

Introduction

A Presidential Executive Order issued in September 1993 requires Federal Agencies to provide customer services equal to the highest quality of services delivered by private organizations. It also requires the agencies to benchmark against these organizations. Benchmarking may be defined as the search for best practices that lead to superior performance.

In October 1994 our parent organization, the Agricultural Marketing Service, selected the Cotton Division's Market News Branch to conduct a bench-marking project in order to comply with the Presidential Executive Order.

Methods

We put together a small team to select a benchmarking partner and to determine what portion of our program we should benchmark, our training needs, etc. After consulting with upper management, we decided to benchmark our spot cotton quotations program. We asked Cotlook, Ltd. of Liverpool, England, a well-known and respected organization, to be our benchmark partner and they agreed. Quality Solutions, Inc., Cleveland, OH provided the training required for this undertaking. Training was conducted in Memphis, TN for eight Cotton Division Representatives and Keth Henley of Cotlook.

Quality Solutions recommended that we conduct a customer survey prior to benchmarking so that we would know what our customers thought of our services and whether or not we were providing them with pertinent information. We

developed and conducted a telephone survey of current subscribers to the Daily Spot Cotton Quotations report and also of subscribers who had dropped off our mailing list in the year prior to the survey. We made at least three attempts to contact these subscribers.

Results and Discussion

When asked the reason for not renewing their subscription none of the former subscribers indicated that the report was not accurate or timely enough to meet their needs. Several had simply forgotten to renew and others were receiving the information from another source.

We were able to contact 62 percent of the current subscribers. Of those contacted, 43 percent classified themselves as merchandizers, 14 percent as insurance, and 9 percent as manufacturers. The remainder included growers, media, financial, ginners and other. Growers accounted for less than two per cent of the subscribers. Ninety-six percent of the respondents received their reports by mail. Eighty-one percent said they received the reports in time to make use of the information. Ninety-four percent said the reports were easy to understand most of the time. Ninety-six percent said the report is logically organized. Ninety-eight percent said the report was received in good condition. Ninety-two percent said the report provided them with essential information. Sixty-two percent said the Daily Spot Cotton Quotations report accurately reflects current market conditions most of the time. Only 6 percent of those surveyed said it rarely reflected current market conditions. Eight-four percent said the report was unbiased most of the time. Forty-three percent said they incorporate information from the report into their everyday marketing decisions some of the time and 39 percent said they did this most of the time. Fourteen percent said they rarely used it for everyday marketing decisions. Seventy-five percent said that they share the information with others. The report is shared with an average of 5.6 people, ranging from a minimum of 1 other person to a maximum of 60 people. When asked about cost of the report, 29 percent said it was very reasonably priced and 62 percent said it was reasonable. Overall satisfaction with the report was 82 percent good and six percent very good, with only 4 percent fair and 1 percent poor.

Based on the survey results, the Benchmarking Team put together a series of questions to ask Cotlook, Ltd. Cotlook was provided with the questions ahead of the interview, and we made it clear that we did not want them to respond to any question with which they were not comfortable. We found that Cotlook and the Cotton Division have much in common. Both are regarded as being unbiased and neither has any position in the industry as far as buying and selling of cotton or cotton futures is concerned. Both publish daily and weekly price reports. Both have weekly summaries of prices, quotations, crop progress and trading activity. Their subscribers are basically the same as ours.

On the other hand, there are some differences. Their basic price collection system is the collection of offering prices while we try to establish our base price with actual trading prices, although we may have to use offering prices to establish differences. Cotlook offers a database service while our database is not yet available to the public. They handle administrative matters such as subscription renewals and address changes in a different manner than the Cotton Division. They offer report delivery in a broader range of choices. They establish quotations on a much smaller range of qualities than we do and their collection mechanism encompasses a shorter time frame than we use to establish our quotes. Cotlook contacts the same individuals or firms each day while we try to contact different individuals on different days.

Overall, the benchmarking project revealed no major or glaring areas in which we can improve our quotations work. Let me emphasize, neither the customer survey nor the benchmarking project gave us any indication that we should make any significant changes in our spot quotations program. They did show that there are some administrative areas in which we can make some changes that will benefit our customers, primarily in the method of dissemination and handling of mailing lists. We have already made changes in the handling of mailing lists, but do not plan to make major changes in our dissemination until our parent organization determines to what extent we will be able to utilize the internet and local bulletin boards.

At present, our spot cotton quotations are established to comply with the provisions of the Cotton Futures Act. This legislation requires us to establish the "commercial value" for cotton to be delivered against cotton futures contracts, and we are not required by law to quote any other qualities. At the request of the cotton industry, we presently quote a much wider range of qualities than required by law. "Commercial value" has been interpreted to include all kinds of trades, grower to merchant, merchant to merchant, merchant to mill, etc. Therefore, our quotations are not grower prices, they are not merchant prices, they are not mill prices and they are not "end use" prices.

In simple terms, we establish quotations on a day to day basis by doing our best to collect a wide range of price information from a wide range of buyers and sellers. Information is collected by personal visits, by fax and over the telephone. We have four full-time employees who devote most of their time to this process and to establishing quotations once the price information has been collected. During periods of time in which cotton is actively trading, we are able to obtain enough information to establish the base price with a high degree of confidence. However, since most cotton trades in mixed lots and the bulk of our price information includes a single price, along with a breakdown of the qualities in the lot, it is very hard for us to determine differences for qualities other than the base price. In fact, many, and I probably should say "most",

sellers do not know whether or not they received a premium for stronger cotton or a discount for weaker cotton, etc. All they know is that they got a certain price for the lot. If the seller doesn't know, how can we? We have no choice but to ask the buyers what differences they used when buying the lot. So, while we have a high degree of confidence in our base price, differences above and below the base price tend to move toward buyers' basis or toward the loan depending on terms of the sales. We know of no other way to do it.

The Cotton Division's Market Reporters do an excellent job of establishing timely and accurate spot cotton quotations, under the conditions in which they must operate. In closing let me say again, spot cotton quotations are not grower prices, they are not merchant prices, they are not mill prices and they are not "end use" prices. They are "commercial value" prices, in accordance with the legislation under which we operate. That is what they have always been and that is what they will continue to be until all segments of the cotton industry agree that they want something else and the legislation is changed.

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