PRODUCER-MILL MARKETING/ A SYMBIOTIC RELATIONSHIP

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Abstract

Until recently there were many people who claimed to be cotton farmers. Now there are farmers who grow cotton, but are willing to switch enterprises if another crop is more economically appealing. Long time cotton producers are seriously considering alternative enterprises with less financial risk and capital commitment. Some have gone farther than the considering stage. The current farm program is not correlated to the planting of cotton. This may adversely affect the stability of cotton production in the Delta since cotton will have to compete as an enterprise on its own economic merit.

Will U.S. Cotton Compete?

Many agricultural communities are very dependent on cotton and the economic multipliers that result from its production. Cotton production requires more supply and service businesses than most competing crops. Unfortunately these same benefits do not accrue from grain and oil seed production and should the competitive position of cotton erode, there would be many casualties. Today, cotton's domestic position is fragile.

A healthy domestic cotton industry is a competitive industry. Our potential for success would be enhanced by a comprehensive, holistic evaluation of the industry, resulting in the implementation of appropriate improvements. Marketing is a segment that should receive priority. It is conceded that different people have different perspectives. The ideas presented are offered for consideration by those who believe that marketing efficiency can be improved. If the shoe fits, try it on. If it "don't" fit, don't force it.

The United States economy includes a social, political and economic system that is highly interdependent. Therefore, being part of an advanced society, we have many humanitarian and other socio-political programs that mandate support. These include: (l) OSHA, (2) EPA, (3) Minimum Wage, (4) Social Security, (5) Medicare and the list goes on. It would not be productive to discuss the merits of these programs at this time since participation is not optional, but their existence imposes disproportionate obstacles upon domestic competitiveness in favor of the foreign sector that may be difficult to overcome.

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Also, the United States has trading relationships with countries that attribute less significance to human rights, poverty, medical assistance and environmental safeguards. Although unintentional, we have in reality generated a synthetic subsidy that places some foreign cotton industries at a significant advantage, both in production and milling. Modern technology no longer seems to offset these disadvantages since we often give our technology away to competitors and pay the freight to deliver it.

The 1996 Farm Bill will increase income risks. This could result in significant structural changes in the cotton industry. Either the industry plans for these adjustments or time will impose the needed changes. However, the cost of not planning ahead could be severe and a much smaller industry might remain.

U.S. Cotton Industry Vulnerable

Improvement in cotton market structure and performance is needed. Research has shown that some years there is a 10-20 cent difference between the price paid by mills and that received by producers. The wide price range indicates a marketing system that includes considerable deficiencies. That is, the market structure includes some components that increase costs more that the services performed (i.e., there is no value added to fiber when it is classed more than once). Also, the Southern Regional Research Center in New Orleans suggests a significant impact on profit from a 1 cent per pound difference in the price paid by mills. This is also true in production. Expanding marketing opportunities between producers and mills offers a significant bilateral contribution to competitiveness and the probability of survival. Presently only a small number of mills and producers are taking advantage of this potential in our area. This seems to be due to indifference in both camps.

Can we afford the status quo? We are seeing projected prices that challenge the most accomplished cotton economist to project an effective budget that suggest cotton as a practical enterprise when compared with available alternatives. The mill/producer price disparity contributes to this shortcoming. If this disparity is acceptable, then the likelihood of sustaining competitiveness is diminished. At the mid-60 cent price level projected by the University of Missouri's FAPRI model, the domestic producer in the Delta may choose to abandon cotton for an enterprise that is less risky, has a lower cost of production and is less management intensive. Bankers are already supporting this position, principally due to the inability to accurately project pest management budgets. Should this occur, the producer may not be the most disadvantaged. It is likely that all related industries within this eco-system would suffer. The best interest of all would be served by investigating the possibilities of reducing this disparity. Effective communication is imperative.

There is a need for facilitators and matchmakers to assist in developing producer-processor relations. Involvement in export negotiations has shown that there is more potential assistance available to stimulate foreign trade than there is to promote domestic transactions. Several sources of collaboration are:

- World Trade Centers
- State and National Trade Centers
- Regional (SUSTA-Southern United States Trade Association)
- County (JEDCO-Jefferson Parish Economic Development Commission)
- Trade Consulates
- Trade Missions
- Custom Brokers and Freight Forwarders
- Banks with International Departments

Support Needed to Focus on Domestic Cotton Use

Though underdeveloped at present, there may be potential facilitators with land grant universities, state and national commodity organizations and state and federal departments of agriculture and commerce. Aggressive assistance from these organizations is not presently evident.

The policy of Cotton Incorporated regarding this matter is difficult to understand. One position stated to me by phone was that they would not assist or become involved in this area, even as a facilitator. This was later confirmed in a one on one informal conversation with an officer of the organization. The reason given was that growers and mills were in competition and had adversarial positions regarding the question of price in that the farmer wanted the most money while the mills wanted to pay the least. This position, as stated, is questionable because similar conditions usually exist in other buy-sell situations. Farmers are neither competitors nor adversaries of chemical suppliers, equipment dealers or mills.

It is important to recognize our competitors. As producers, our primary competition is (1) foreign cotton producers, (2) other fibers, especially synthetics and (3) fellow domestic cotton producers. But we are not competitors of mills; we are partners.

If this competitive relationship were the case, the origin of Cotton Incorporated's source of funding suggest that the interest of cotton producers deserves some degree of priority since the overwhelming majority of financial support is at the producers' expense. If the well being of the producer is being relegated to an ancillary position relative to that of the industry overall, then this policy needs to be reexamined.

The mission statement of CI indicates that they are the research and promotion company of U.S. upland cotton growers and that their efforts concentrate on building demand for cotton products and increasing cotton consumption.

If the primary mission of CI is to aid the producer by promoting the entire industry, then resources should originate from a more diverse base. CI's resource base is highly specific, and it seems reasonable that their primary focus would be channeled toward programs that directly advantage the primary supporters of their existence--producers. Their scope is pointed in the right direction, but the focus may needs adjusting.

If there is any degree of reason in this observation, then it should be taken as a wake up call and appropriate adjustments made before opinions like this become pervasive and the revolution ensues. Farmer relations with CI are like a family rivalry--it is O.K. for us to criticize them, but we would defend them from outsiders' criticism. These observations are presented with hope that these questions will be addressed in a family manner and be resolved internally rather than be litigated in a disruptive manner like the milk and beef industries are going through.

Improved Producer-Spinner Relationship Vital

Since ginning is the first step in fiber processing, the local gin assumes a vital role in the cotton economy. In a mill direct system, quality ginning and handling by a specific gin is more easily recognized since ginning techniques can be varied. Knowing where cotton is ginned and by what standards can be valuable to a mill's management performance. There may be no more logical entity than a quality gin to develop group marketing interest.

Producers will need to assess the value of their independence in cotton marketing. The bargaining power of an individual having a thousand bales offers little leverage when compared with someone representing several growers having several thousand bales of quality ginned cotton that can be delivered timely. Some cotton producers accept as their destiny that they can't influence markets. The same can be said of the direction of a train. We can, however, decide when to get on and off, and this can affect results significantly.

In negotiating, price seems to take center stage, but there are other details to consider and some contribute to value. Some are:

Discount Schedules

- Timeliness
- Consistent Quality
- Equitable Responsibility Sharing
- Variety Selection and Ginning Procedures
- Who Calls Price
- Basis
- Quality and Weight Determination
- Letters of Credit and Bank Procedures
- Kickbacks---probably talking to the wrong party

What are some potential advantages to mills for negotiating with producers?

Variety Selection
Ginning and Handling Procedures
Timely Delivery
Warehouse Cooperation
Increased Competitiveness

Some obstacles based on producers' past experience are:

Rejected Bales
Little Economic Advantage
Willingness to Accept Status Quo
Negotiators with Unilateral Perspective
Payment Procedures

The recognition of opportunities and appropriate responses will enhance our probability of success. There is a point at which reasonable business people should compromise to the benefit of both parties. To reach this point of compromise that is mutually beneficial, there will need to be some perceptual changes. Both parties will need to consider the premise that this is an interdependent, non-competitive relationship.

Summary Comments

The support of social programs in our advanced society is an obstacle to competitiveness in a global market.

Producers and mills have a degree of interdependence and would share the benefits of equitable trading relations.

The land grant system and commodity groups have an interest in promoting domestic cotton competitiveness.

Without government programs tied to cotton planting, this enterprise will have to compete predominantly on its economic merit.

Producers and mills who have equitable and bilaterally beneficial marketing relationships have a competitive advantage over those who do not---all other factors being equal.

Competitiveness is a critical component of survival and is enhanced by effective marketing.

If we fail to anticipate needed changes, evolution will eventually impose the most efficient marketing agenda. Evolution can be brutal.

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