

THE CHALLENGES AHEAD

J. Berrye Worsham
Cotton Incorporated
Raleigh, NC

Ladies and gentlemen, it is indeed a pleasure to participate in the 1998 Beltwide Cotton Conference. This year's event is particularly important for me in that it is my first speaking engagement since assuming the position of President and CEO of Cotton Incorporated last Thursday. It is a position that was held successfully by Nick Hahn for more than sixteen years. As many of you know, Nick stepped down at the end of 1997 to form his own management services company, Hahn International, Ltd. The leadership role of Cotton Incorporated is a responsibility that I take very seriously, and I'm excited about the opportunity to build upon the achievements of my predecessors, Nick Hahn in particular.

My purpose here this morning is twofold: One is to touch upon some of the major issues which will have a profound effect on the cotton industry in the coming years. And along with that discuss what Cotton Incorporated is doing or will be doing to address those serious challenges. The second purpose is to launch Cotton Incorporated's recently completed corporate annual video, which covers major Cotton Incorporated activities and highlights of 1997. For the past several years, this conference has served as the kick-off of our corporate annual report.

My career in the cotton industry now spans some fifteen years, most of which was spent in the economics area. I can think of no time in that period in which cotton has come under attack on so many fronts. We have seen the hardships at the producer level emanating from the ravages of insects, which have sent production costs upward and have reduced yields. Every producer knows this. It is true whether you're fighting weevils and aphids in Texas, bollworms and budworms in the Delta and Southeast, or the whitefly in the West. Also, the financial attractiveness of competitive crops such as corn and soybeans is luring acreage away from cotton. We have the federal government scaling back financial support to the U.S. producer with lower deficiency payments. We have the very serious competitive threat worldwide from the proliferation of synthetic fiber capacity, particularly in Asia. Excess synthetic fiber capacity and the current financial crisis in Asia are two major reasons why cotton prices are so low. We have massive consolidations at retail and at the mill which are changing the nature of the customer/supplier relationship. All this at a time when there is emerging a new generation of consumers, those 25 and under, who will require different products and marketing techniques than the generation preceding them.

But even in the midst of these daunting events, I believe that the cotton industry in general, and Cotton Incorporated in particular, is better positioned today than ever before to move cotton ahead to new heights. And furthermore, I believe that we will prevail in our efforts. I'll tell you some of the reasons why.

Whether you talk about growing cotton on the farm or processing cotton at the mill, streamlining production costs is now an essential ingredient just for survival. It will continue to be going forward. The days of passing along increased costs through higher prices along the chain are over—at least for the foreseeable future. Just ask the yarn spinner or the apparel manufacturer. Cost reduction is an area where agricultural and textile research must both play a vital role. I will tell you that I see research as a key tool in Cotton Incorporated's arsenal of weapons.

The agricultural research component of Cotton Incorporated's budget has grown faster than any other area of the company in recent years. It is the only division where there will be a net gain in staff for 1998. And I believe that the research has become more targeted to the needs of the producer. The number of State Support Program projects has increased 75% over the past five years. And the number of projects directly targeting our most pressing production problem, insects and weeds, has more than doubled in that period. This is true of the core Ag Research budget as well. We all know that it takes time to reap the benefits of research but I believe that we are already on the precipice of seeing the fruits of our efforts. For example, In 1998, we will see the commercialization of the Lepton® Kit and the COTMAN™ management system, both of which hold promise in the area of cost-effective insect management. And of course there is important work done in other areas as well, such as coated cottonseed. This will help improve the demand and value of whole seed to the U.S. producer.

You may know that the Cotton Incorporated staff has, for many years, made a significant number of presentations on research at this very conference. But you probably don't know, that about 25% of the 600+ research papers delivered at this year's conference are based on projects or activities funded by the Cotton Research and Promotion Program. We are committed to research.

More than fifteen years ago, open-end spinning helped revitalize the processing of cotton, particularly here in the United States. Now there is new technology on the horizon which could be equally revolutionary for cotton: Technology which will dramatically improve the speed of processing cotton yarns which in turn would lower the cost of spinning cotton. Our textile research staff will be an active participant in the implementation of this technology. We've already done fabric samples and tests and the early results look promising. We have a storied history in new technology development. EFS® Systems software, developed by Cotton

Incorporated, is now a mainstay in the processing of cotton in this country and is expanding abroad. We're seeing exciting developments for cotton in the floor coverings market, which is the second largest market for fiber in this country behind women's apparel.

The point that I want you to remember is that there are many Cotton Incorporated research activities, which will pay dividends to the cotton industry in the years to come. Cotton Incorporated will be there day and night pushing these technologies to the market.

But the cotton industry cannot afford to close ranks and focus only on research. A table must have three legs on which to stand, and as it relates to cotton, those legs are research, export marketing and domestic marketing.

About four of every ten bales of cotton that are produced in this country are destined for the export market. When I joined Cotton Incorporated some fifteen years ago, we had an office in Osaka, Japan to handle all of the export servicing of Asia and an office in London to handle all of Europe. The international cotton market is now more complex than what could be serviced with our previous structure. Today, Cotton Incorporated has full-service offices in Mexico City, Osaka, Japan, Singapore, Basel, Switzerland and our newest office in Shanghai, China which opened in late-1997. These offices service countries which comprise more than 80% of U.S. cotton exports. Rapidly changing conditions internationally require that we remain flexible and comprehensive in our ability to service the export market and we at Cotton Incorporated are in a much better position to meet these changing markets. Our working relationships with Cotton Council International as well as with the merchants and co-ops are the best since I've been with the company. This is essential for the industry to effectively implement a comprehensive international effort.

The third leg of the illustrative table is domestic marketing. When you think about it, all of the efforts devoted to growing and processing cotton more efficiently are meaningless unless a consumer buys a cotton-containing product. Otherwise it's all for inventory. Remember, a consumer doesn't go to the store to buy a few pounds of cotton--she goes to buy shirts, pants, towels, etc. which may or may not contain cotton. It's our job to make sure that the consumer wants those shirts and pants to be made with cotton and that they believe there is an inherent benefit in an all-cotton or mostly cotton garment. Without that belief by the consumer, the cotton industry would be forced to compete with the synthetics on price alone, a sure-fire recipe for failure.

It would be nice if DuPont, Hoersct-Celanese, Wellman and other fiber manufacturers would stop developing new synthetic fibers and would cease to refine existing ones. It would be nice if they didn't advertise aggressively in the

trade such as the advertisements in DNR and WWD - trade publications read by almost every key textile and retail executive in the United States. It would be nice if they didn't promote to the consumer in order to regain markets lost to cotton. It would be nice if they would just relinquish the apparel and home products markets to cotton. But it won't happen - you know it and I know it.

We are not going to rest on our successes of the past and we are not assuming that the competition will sit still. We must defend our markets. We know that there is a new generation of consumers who are different than their predecessors. I'm talking about consumers under age 25. We must convince these consumers that cotton is better than the synthetics. This generation did not grow up with the awful polyesters of the 1960s and early 1970s and so are not negatively predisposed to these competitive fibers. Some were not even born then. We have to restructure our promotional efforts to address this younger generation of the future while maintaining the loyalty of the older generation of consumers. Our first major action in this area will be a new advertising campaign, to be launched in the second half of 1998. It will be more versatile in terms of its appeal to youth and it will also be more fabric oriented. All this while retaining the valuable equity that we have built over the years in "The Fabric of Our Lives™" theme.

Finally, the integration of research and marketing is a high priority with me, with the Board of Directors at Cotton Incorporated as well as with the Cotton Incorporated staff. We are in the process of building a new state-of-the-art research center in Raleigh, North Carolina which will serve as the company's new world headquarters. Housed in this facility will be all of the company's divisions with the exception of the Marketing Services and some marketing functions which need to remain in New York. It will be the first time in the company's 27-year history that the chief-executive's position will be in the south. This facility will be a tremendous boost to the efficiency of the company's operations and will serve as a vital tool in reaching our goals. The completion date is scheduled for mid to late 1999.

There's a lot happening at Cotton Incorporated, and I'm proud to be the new leader of this great organization. To paraphrase a quote that I heard used recently: "the ones who dare to believe that they can make a difference in the world are the ones who usually do". I believe that the cotton industry can make a difference and it's important for each of us to leave this conference believing that we will.

Now ladies and gentlemen, it is my great pleasure to introduce our newly produced corporate video which highlights some of the major activities and events of the past year.

Thank you. I look forward to making a difference.