

DEVELOPING A COMPETITIVE EDGE IN THE GLOBAL ELS COTTON MARKET

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Abstract

The 1997/98 cotton marketing season marks the second consecutive year of increased world consumption of extra-long staple (ELS) cotton, after 10 years of declining usage. It also is the first season since 1993 that the world consumed more than 3 million bales of ELS cotton. As consumers continue to demonstrate a preference for better quality apparel and home textile goods, consumption of this rare but precious fiber will rise by 6% during the current marketing year, following an increase of 12% last season. And the U.S. is once again the leader among world ELS cotton exporters, a distinction it has held in eight of the last nine marketing seasons.

Introduction

When U.S. Pima producers decided 15 years ago they were ready to make a run at the world ELS cotton market, its promotional organization knew what it would take to unseat dominant supplier Egypt: a complete package. The Supima Association felt confident that the lifting of the allotment system and the release of Pima S-6 in 1983 were the last two steps needed to provide American Pima cotton producers with the supply and quality needed to satisfy the needs of the world's fine count yarn spinners. The Association had identified one of the last trade markets in the world that was controlled by a single supplier. Egypt's stranglehold on the global ELS cotton market had enabled it to set the price. Supima had recognized immediately the opportunities that this specialized niche market would offer, once it was able to introduce a steady supply of high quality ELS cotton at competitive prices. Here was a market with limited end uses that was controlled by an exclusive supplier.

Previously, U.S. Pima producers had simply supplemented a fixed domestic market that was also sourcing Egypt for ELS cotton. With production controlled by a government-run acreage allotment system, the U.S. was never considered a serious supplier of ELS cotton. Limited yields had kept grower enthusiasm for the fiber in check, while less than acceptable fiber characteristics had kept the world's fine count spinning mills from showing much interest. All that changed in 1983. Since then, it's been a matter of the U.S. meeting the rising demand for its Pima cotton.

U.S. Pima Alters ELS Marketing Dynamics

The global textile industry had always known that the entrance of U.S. Pima into the global ELS cotton market would be a welcome development, but it wasn't a pressing issue. As is the case today, ELS typically accounts for less than 6% of total world cotton production and consumption, respectively. But mills also knew it was a niche market that would always be there, and one that held potential for future growth.

American Pima's sudden emergence in the global ELS market in the mid-1980s represented more than just another available supply for fine count spinners, it also signaled the beginning of a healthier and more competitive market. The U.S. came onto the scene with a complete infrastructure in place, which was a noteworthy asset in a field of suppliers hampered by governmental control and antiquated ginning and shipping practices. Supima, U.S. shippers and grower marketing cooperatives began attacking this weakness. They promised a reliable supply, consistent quality, on-time shipments and competitive prices.

And Supima's presence was also a new twist. The historical ELS cotton suppliers - Egypt, Sudan, the Soviet Republics and China - were mostly government-controlled, which meant that the information flowing from these sources was often dated and less than dependable. The U.S. Pima industry, on the other hand, was represented by the Supima Association, which provided any requested information upon demand. Its mission was to increase the consumption of American Pima cotton, so its function became that of a facilitator. Supima felt that spinners who were informed of everything the U.S. and its competitors had to offer, would opt for the reliability of U.S. Pima.

Competition Intensifies in Shrinking Market

U.S. Pima would immediately be put to the test by entering the global market at its peak. American Pima exports cracked the 100,000-bale barrier for the first time in 1985, yet it accounted for less than 10% of global ELS cotton exports. Global consumption of ELS cotton would top out at 5.5 million (480-lb.) bales in 1986/87, only to fall to as low as 2.5 million bales in 1995/96. As the 10-year decline in global ELS cotton consumption began in 1997, the number of serious ELS cotton exporters also began to shrink. The three former Soviet Republics that used to supply a consistent amount of ELS cotton to eastern bloc countries would see its export sales drop dramatically in the ensuing five marketing seasons. Peru, Sudan, India and China would all see their ELS cotton sales give way to U.S. Pima competition in a declining market.

Beginning in 1989, Egypt would be forced to reduce its sales price for four consecutive seasons before it would be able to unload a substantial volume. By then, the U.S. had established itself as the world's leading ELS cotton supplier.

Fine count textile mills were convinced that U.S. Pima had become a permanent fixture in the ELS market, and that enabled them to begin long-term planning. Part of the promotional strategy for Supima was to utilize its licensing program as a means of locking in selected mills, manufacturers and retailers to extended licensing agreements. This means that any products to be advertised or marketed with the Supima trademark have to be made of 100% American Pima cotton. Consequently, apparel and textile manufacturers are telling their fabric and yarn suppliers to ensure that any ELS cotton product they receive must be pure Supima cotton.

The Supima Association offers promotional support to these business partners by providing hangtags, cooperative marketing and limited advertising funds. It also remains a valuable source of information for everything from crop and price reports to names of knitters, converters and manufacturers. Because more than 80% of American Pima annual consumption is offshore, Supima works very closely with Cotton Council International to provide promotional support to overseas textile customers. A major portion of Supima's work is simply developing relationships. Its staff visits customers from more than 15 countries every year, which goes a long way towards developing a long-term relationship with those customers. When your primary competitor pulls its cotton supply off the market just two months into the season, then fails to offer any cotton for sale the following season, as Egypt did in the mid-1990s, customers place a high premium on loyalty and relationships. That is where Supima has leveraged its strengths.

Outlook for 1998 - 2002

History is a great source of inspiration when one becomes complacent. When we begin to feel content about the recent accomplishments of U.S. Pima cotton in both domestic and overseas fine count yarn markets, we are quickly reminded of how Egypt has lost what had been considered to be a monopoly in this market. Like any business, you must maintain a healthy relationship with your customers. We look upon them as partners. We want their businesses to flourish and we will do everything we can to help them. You have to maintain a close association with your best customers, always monitoring their needs and working together to determine how best to meet those needs.

The Supima Association believes the current resurgence in fine count yarn consumption around the world is likely to continue for the next three-to-five years, but on a modest

annualized pace. Supima is joining manufacturers and retailers in searching for ways to leverage the consumer trend towards better quality textile and apparel goods. More resources will be funneled into domestic advertising aimed at raising consumer awareness of the identity of the premier source for the world's finest extra-long staple cotton.

Supima also believes the shift of foreign fine count yarn production from Europe and Japan to Southeast Asian countries will continue. Supima staff will continue its efforts to help development emerging markets in Bangladesh, India, Pakistan, Taiwan, Indonesia, Thailand, China and other countries. It also will maintain its close ties to long-standing customers in countries such as Japan, Italy, Switzerland, South Korea and the United States. Increasing market share remains a top priority of the Association, and expanding its licensing program and developing new markets are two important strategies it will continue to rely upon toward that end. Egypt, among others, can be expected to summon its vast amount of resources in a concentrated effort to win back market share in this growing market. Supima must remain vigilant in its promotional efforts.

Conclusions

The Supima Association is owned and operated by American Pima cotton producers. Its objective is to increase the consumption of U.S. Pima cotton around the world. We think the best way to do that is to nurture existing relationships with textile and retail companies, and to build relationships in those new markets we are helping to develop. Price is often considered to be the most important component of trade. But long-term business relationships are built upon strong foundations that are made of many pieces, just one of which is price competitiveness.

U.S. Pima comes to the table with the complete package of a reliable supply of consistently high quality ELS cotton at market competitive prices. Additionally, the precious fiber is actively supported and promoted by the efforts of Supima, Cotton Council International, the American Cotton Shippers Association, AMCOT and the National Cotton Council. Growers and ginnerers are also independently and jointly proactive in the development of improved farming, harvesting and ginning practices. And, perhaps most important, aggressive research at the federal and private level is ongoing for the development of improved Pima cotton varieties that will yield more for the producer and spin finer quality yarn for the spinner.