

GROWER DIRECT TO MILL COTTON SALES

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Abstract

Servico Gin's commitment to quality has allowed us to acquire a grower direct to mill contract. The contract has increased the profit potential for the individual grower through a variety of advantages and pricing flexibility.

Introduction

Prior to 1997, all of the cotton sold by Servico Gin customers was through merchants. Now the farmers have increased their profit potential by switching to grower direct to mill cotton sales. I will go through the advantages of the new contract, tell you how the contract was attained, the bottomline outcome of the contract, as well as discuss the flexibility that the contract gives farmers with regard to pricing method.

Discussion

Contract Advantages

Premiums are available through the contract for strength, staple, uniformity, and no prep. There are additional advantages that include a zero basis on December and HVI color. The HVI camera does not pick up the shadows and light imperfections that are called by a manual classer.

How Did I Attain This Contract?

Central to the answer to this question is the fact that Servico has committed itself to improving the overall quality of the cotton ginned. In other words, Servico is now process oriented rather than being production oriented. Intelligin has helped us to attain our goal of improved quality. Intelligin is a system that uses computers and video technology for process control during the ginning process. Between 1994 and 1996, Intelligin was developed at Servico and its advantages were quantified. Servico also went through major capital expenditures to improve the quality of the cotton ginned in order to take advantage of the willingness of the spinner to pay for the extra quality.

Servico's Commitment to Quality

Quality at Servico has been achieved through various avenues. Contamination control is achieved through the use of polyethylene bags, paved module pads, scheduled equipment checks, as well as cleaning up around the fields and gin. Variety selection also plays a major role as the mill prefers strong, smooth leaf varieties. Careful attention is paid to harvest conditions and perhaps most importantly is

the installation of Intelligin allowing us to individualize gin processing.

Gin Process Control

The Intelligin system achieves optimal cleaning and drying of the cotton thereby reducing fiber damage. Through reduced lint cleaning, less overhead cleaning, and less drying, fiber quality is preserved. Continual on-line measurements of cotton quality means the system continually adjusts to optimize the ginning process. This process control is what allows the individual grower to take advantage of a mill direct contract.

Pricing

Another, often overlooked, advantage of the mill direct contract is its flexibility with regard to pricing. The contract allows the individual grower to specify the way that his or her cotton is priced. The contract with the textile mill is a call contract based on December with option to roll out to July. I prefer to fix 100 bales at a time and at the same time buy a slightly out of the money call at approximately $2\frac{1}{2}$ cents to be able to take advantage of a price rise. I consider this a form of price insurance. I like to end up having 25% of my cotton sold by planting, 50% sold by June 1, and 75% sold by harvest.

Summary

The bottomline advantage of the grower direct to mill cotton contract is economics. The quality emphasis at Servico plus the mill direct contract resulted in \$16.24 more per bale in 1997 than in 1996 for my farming operation.