

**THE EVOLUTION OF GLOBAL
ELS COTTON MARKETING**
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Abstract

Annual U.S. Pima exports have risen from less than 100,000 bales in the early 1980's to nearly 400,000 bales a year in the 1990's. More recently, domestic use of American Pima cotton has enjoyed similar growth, increasing from about 65,000 bales of annual consumption in the first half of the 1990's to averaging more than 125,000 bales per year in the last five years of the decade. And though global consumption of extra-long staple (ELS) cotton has declined somewhat in the last two marketing years, exports have remained above the 1-million-bale threshold for the fourth straight season. Despite the overall drop in total ELS cotton usage, current season ELS exports are expected to hit their highest mark in six years. This development bodes well for U.S. Pima, which earned the distinction of being the leading ELS cotton exporter in eight of the past 10 marketing years.

Introduction

The global ELS cotton landscape has changed dramatically since U.S. Pima first entered the foreign market about 15 years ago. The large majority of the fiber went into fine apparel, while U.S. mills had confined most of their consumption to thread and industrial use applications. Egypt had dominated the global ELS cotton market prior to the late-1980's, but the former Soviet Union had a tidy market of its own among eastern European countries.

By 1992, U.S. Pima had firmly established itself as the world's leading ELS cotton export and the former Soviet Union was no longer. Gone with the dissolution of the communist USSR was its ELS cotton market stronghold which led to a further decline in total ELS consumption. But perhaps the biggest development was the equalization of prices, which had begun to drop in 1989 after American Pima exploded onto the world market with sales of 452,000 bales. Not only did lower prices make the market more competitive for various suppliers, it made the precious ELS cotton fiber more affordable for the world's fine count yarn spinners. What had long been considered luxury products only worthy of the most affluent, high-end apparel and textile goods had entered the mainstream by the early 1990's. These high-end products are now being identified with well-known, established brands and have moved from the backs of stores

to the front. This trend continues to gain momentum as we enter into a new decade.

Competition Opens Up Market Potential

U.S. Pima transformed the global ELS cotton market into a free market enterprise similar to that which had long existed for upland cotton. This development allowed mills to include more fine count yarn applications in their long-term planning, thus giving their respective product development and marketing departments the freedom to be more creative. ELS cotton still only accounts for 4 - 6% of total world cotton production and consumption, respectively, and, therefore, fits within a highly defined niche market that has limited growth potential. But the certainty of its staying power and its ability to branch out into more accessible product applications lends itself to a promising future.

U.S. Pima's emergence in the global ELS market in the late-1980's has had the positive effect of forcing the competition to streamline its marketing methods in order to keep pace. Egypt, which had long dominated this market, was a bit slow in coming around, but had announced by the mid-1990's that it would begin to privatize its own publicly-controlled cotton marketing system in an effort to mirror the free market system of the capitalistic United States. This commitment, although five years later is still far short from being fulfilled, has allowed textile mills and manufacturers to become aggressive in the marketing and promotion of specific fibers and brands. U.S. Pima had been building a loyal customer base both in the mill sector and in the small, but exclusive high-end apparel and textile consumer segment. The long-term commitment of the two major ELS cotton suppliers, providing 75% of global exports, has given textile companies the freedom to develop brands and marketing campaigns around these two fibers and the products they produce.

Branding Emerges as Key Marketing Tool

Part of Supima's promotional strategy has been the utilization of its licensing program as a means of locking in selected mills, manufacturers and retailers to long-term commitments. The agreement requires that any textile or apparel product to be advertised or marketed with the Supima trademark is to be made of 100% American Pima cotton. As a result, not only have apparel and textile manufacturers been signing onto Supima promotional programs, but their fabric and yarn suppliers have been requesting licensing agreements in record numbers in order to participate in the Supima supply chain. Premium fiber labeling has become much more prominent in the past five years as consumers have become more informed and more discriminate regarding product content. This activity prompted the Federal Trade Commission (FTC) to examine the labeling of precious fiber in the U.S. marketplace, resulting in its issuing in June of 1997 new

guidelines for premium fiber labeling: "Calling it Cotton: Labeling & Advertising Cotton Products." If manufacturers and retailers were going to leverage the growing demand and higher prices for textile and apparel products made of top quality cottons, the FTC wanted to ensure the consumers were getting what they were paying for.

And though exports still account for more than 70% of U.S. Pima cotton offtake, domestic consumption has increased by about 90% since the mid-1990's. The bed and bath segment remains the leading consumer of Pima cotton in the U.S., but apparel applications have risen in recent years, primarily in knitted goods. Thread production continues to be a major application for American Pima cotton, but the increased fiber identification trend has been tied to apparel and home fashions. Supima has signed more than a dozen leading U.S.-based textile mills, apparel manufacturers and retailers to licensing agreements in the past 15 months. Although consumer awareness for the Supima trademark remains very small and doesn't approach the kind of popularity it enjoys in Japan, more apparel and textile companies are recognizing the potential value in associating with the brand. Domestic mills are also consuming a nominal amount of Egyptian cotton (5,000 - 10,000 bales annually), and a steady supply of imported Egyptian yarn is also coming in each year. These two supplies are satisfying on-going Egyptian towel programs that have received national advertising attention. The products being made from this fiber may not be of equal quality or value to Supima-made products, but the Egyptian brand identification carries a value to it, whether warranted or not. Consumers are willing to pay money for what they perceive to be better quality, but the goods will have to perform long-term if they are to maintain elite quality (and price) status.

Outlook for 2000 – 2005

Egypt's pledge to transition into free market practices validates the marketing efforts Supima has employed in this select fiber market, but it also demonstrates the age-old lesson that success leads to more intense competition. As fine count spinners expand their customer base for a growing number of product applications, they are in the enviable position of pitting the two major raw fiber suppliers (U.S. and Egypt) against each other in a bitter battle for market share. Both Pima and Egyptian cotton each have their own fiber quality advantages, namely consistency and reduced contamination for Pima, and better character and fewer neps for Egyptian. But perhaps it is the fewer amount of flaws in Pima cotton that has given it a slight advantage during the 1990's, not to mention the solid infrastructure in place that clearly is lacking in Egypt. However, the Egyptian government's commitment to protecting its valuable cotton industry can not be underestimated. Despite its public pronouncement of supporting a decentralized cotton marketing system, the

Egyptian government continues to do whatever it deems necessary to assist cotton producers in regaining world market share.

At the same time, modest annualized growth in global ELS cotton consumption is expected to continue. World production of ELS cotton is projected to be up by 15% this season, according to the International Cotton Advisory Committee. Total consumption is down by 6%, but it's all attributed to decreased domestic use in Egypt. Global exports reportedly will increase by 12% to a total of nearly 1.2 million bales, the highest export total since the 1993/94 marketing year. Egypt has been able to take advantage of its own abundant cotton supply and reduce prices the past two seasons to reestablish strong export sales, but U.S. Pima's marketing success has helped it maintain market share. Supima has signed licensing agreements with 15 foreign textile mills, apparel and textile manufacturers from seven different countries in the past 18 months, and continues to receive licensing requests.

Conclusions

The future looks promising for ELS cotton and fine count yarn production. Increased competition between Egypt and the U.S., and improved Pima production efficiency in California, could help keep prices below historical levels, which in turn could lead to further product development in the finer quality apparel and textile segments. Improved spinning technology has helped broaden the applications for high quality fibers, which is another tangible reason for optimism. As consumers, you can expect retailers to expand their offering of better quality textile and apparel products, which will be actively promoted with identifiable brand names and trademarks.