

MARKETING COTTON WHEN IT DOES NOT MEET YOUR CUSTOMER'S PROFILE

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Abstract

The continued decline in quality of the US cotton crop has made it increasingly difficult to service domestic mill industry customers with consistent high quality fiber characteristics throughout the marketing year. When weather disasters strike it can be almost impossible.

Background

The supply chain of US baled cotton contains many links made up of various types of marketing entities: cooperatives, merchants, and brokers to name a few. These marketing entities compete for both domestic and export business in hopes of moving their inventory of baled cotton and maximizing the return to the respective owners of each type of organization. All of these organizations face the same type of risks inherent in the marketing of an agricultural product with quality variations subject to weather patterns. I realize that the causes of quality degradation are an ongoing debate; however, I think we can all agree and acknowledge that extreme weather conditions can play havoc with crop quality and yield. To help clarify how this marketing dilemma can develop let's briefly review how cotton is marketed. The successful marketing of any particular crop year of cotton is all about risk management. The particular marketing strategy of an organization depends upon their perceived risk in the marketplace for their product and the amount of risk the organization is willing to take. With these attitudes clearly or in some cases not so clearly embedded in the gray matter between the ears, these marketing organizations embark on their marketing journey. It goes something like this. To reduce the risk of not having a market or a customer for their product and knowing the buying habits of the mill customer a predetermined percentage of the anticipated volume of business is sold for future delivery before the exact quantity of the crop is known. This is known as pre harvest sales. Why is this good risk management? Because when US supply exceeds demand to the tune of 7 million bales, you can rest assure that if you don't sell when the mill customer wants to buy, a large portion of your inventory will be counted in the category of "carryover stocks". To further reduce marketing risk the sales of this unknown predetermined quantity is spread out over different mill customers in various detailed fiber quality specifications before the crop quality is actually known. Through research and development we are now able to measure at least three dozen fiber quality characteristic and when put on a grid this computes to several hundred variations, some of which may not even actually exist in nature, but all of which are specifically spelled out in contract form, subject to Southern Mills Rules. After all, a prudent risk manager knows he should not put all his eggs in one basket and since he is pre selling unknown inventory qualities, why not sell different types and mixes of the unknown quality. To sum up this activity: the marketing risk manager sells a specific amount of an unknown quantity and exact specifications of an unknown quality, both of which are dramatically affected by unpredictable weather patterns, genetics notwithstanding, in order to minimize risk in the dynamically evolving supply and demand world marketplace. At this point, the plan is in place, marketing risk management has been implemented and thenEl Nino, La Nina, Hurricanes, Tropical Storms. In the Carolinas this year these terms are interpreted as dry hot summer followed by monsoons at harvest.

Discussion

This brings us to the point of this discussion which is marketing cotton when it does not meet you customer's profile. Up until now, I have been expressing the chain of events of marketing cotton in a lighthearted fashion. I think it is good for us to sometimes step back and find some humor in our everyday activities.

Seriously, we cannot overstate the devastating effects that adverse weather has had on the cotton crop from our area. When I was ask to speak on this subject a few months ago at the beginning of harvest, we were already concerned and taking action, but it seems that all throughout our harvest it just kept getting worst. I know there are many producers here from all across the cotton belt the experienced adverse conditions this year, but I truly believe the Carolinas were hit the hardest. Yield loss is a difficult issue and quality loss is a difficult issue, but when you have both at the same time, it is extremely difficult.

Every mill customer is different and each sale is different. In light of that, it would be impossible for me to prescribe a one size fits all approach to solving this marketing dilemma. However, I do believe there are guiding principles that can certainly be applied to each situation and constitute many of the actions that we take.

Communication

You must communicate to your customer as soon as possible of the potential of a problem with deliveries. Last minute notifications of potential problems are simply not in the best interest of you or your customer when trying to resolve this issue.

Past Performance

I have found that the best solution for dealing with adverse situations does not necessarily begin when the problem arises. The best solution begins years in advance. Establishing a pattern of treating your customer like a customer should be treated when times are good and there is not a problem. Having a track record of delivering the quantity and quality sold on time establishes the fact that your customer is important to you. 'An ounce of prevention is worth a pound of cure.'

Establish and Maintain an Ethical Standard of Business Practice that Goes beyond Basic Requirement

Every business transaction involves three major aspects: price, service and relationship. If you are only concentrating on one of these then you are missing a rare opportunity to excel to a higher level. Your price must be fair and equitable based on current market conditions. Your service must strive to be the best. If your customer has a problem, then seek to solve the problem, even if you did not cause the problem. The relationship you establish with your customer should be one of respect and honesty. Ethical business practices do not just happen. They are the intentional act of people of integrity.

Understand your Customers Operations

It is imperative, that you have a good working knowledge of you customers business in order to understand the difficulty he faces in proposals that you may make. Each customer you have will have different needs and different abilities to adapt and adjust to the skewed nature of a bad crop. The marketplace is a dynamic evolving situation and what is needed today may not be needed tomorrow. In this world of just in time deliveries and low inventories throughout the supply chain, it can be a start and stop affair. Recognize this fact and seek opportunities in market changes that are dictated by our economy.

Proper Calculation of Advance Sales

Earlier I made light of the process of pre harvest sales, but this is an area that we at Cotton Growers Cooperative spend a lot of time on and take great care in our actions. Everyone in this business knows it is a game of averages. Your statistical analysis of historical yield and quality data should result in targeting of sale that bring you closest to a standard deviation around the mean in terms of yield and quality. The old saying of "sell them what they want and deliver what you have" simply does not work in the modern high speed mills of today.

Fiber Quality without a Domestic Home

I have seen grades this year that when you look at the numbers on a computer screen, you wonder if it's the bale tag numbers or the grade. These qualities simply may not have a domestic home. In the past couple of years and even this year we have been able to move these qualities in the export market. This is certainly a trend in the world consumption of cotton and we will continue to pursue those markets on behalf of our cooperative members.

Conclusion

Once these issues are in place, then you can begin to discuss a solution to a bad crop year problem with your customer. This does not mean that you will be let off of the proverbial hook if you do not have what your customer requires just because you are a nice guy. It means that you can begin to discuss a solution to the problem in a proper business environment.

In some cases there simply may not be a good solution. As a supplier, you may be faced with delivery or breach of contract. Fortunately most sale agreements are made subject to the Southern Mill Rules which were written for the benefit of both the buyer and the seller. Detailed discussion and interpretation of these rules is not the subject of this presentation, but I'm sure it will be a topic of interest this year.

The harvest progressed slowly this year and with old crop carrying many mills even today, it has been difficult for mills to ascertain what will or will not work for their lay downs. Rest assured, however, very soon all the cards will be on the table and working together the mills and the suppliers will find a way to spin this crop.

The cover of the January 2003 issue of Cotton Farming magazine says it best, "Leader Urge Industry Unity". We are all in this together, producers, ginners, warehousemen, merchants, crushers, cooperatives, and manufacturers. Working together through the NCC, we can help establish an environment where healthy competition and profitability can exist.