

Agricultural Outlook Forum 2003

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RETHINKING COTTON PROMOTION

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Introductory Comments

SLIDE 1: RETHINKING COTTON PROMOTION

With the increasingly competitive atmosphere in the cotton textile industry, all segments – from producers to ginner, and traders to spinners and weavers – have seen margins squeezed to a point of threatening their very livelihoods. For those who depend on cotton, the fierce competition from man-made fibers has intensified our plight.

Today I will provide an overview of cotton's global challenge from man-made fibers, and the implications for the cotton industry if steps are not taken to reverse the current trend. I will then talk a bit about some efforts to meet cotton's global challenge.

Cotton's Global Challenge

SLIDE 2: COTTON'S GLOBAL CHALLENGE

Man-made fiber use presents a significant threat to cotton in virtually every market. In 2001 global demand for polyester overtook that of cotton fiber for the first time in history and that trend appears to be continuing.¹ This trend is most pronounced in rapidly growing developing countries such as China, India, and Brazil, in which producer-driven markets determine the availability of products – namely, man-made fiber apparel products. Clearly, if this trend is permitted to continue unabated, the entire cotton and textile economy is threatened.

World Fiber Demand

SLIDE 3: WORLD FIBER DEMAND

In the world fiber market, cotton has been losing market share to man-made fiber for the past two decades. To a great extent, this is due to the effects of excess production capacity that has pushed great volumes of polyester onto the world market and into consumers' shopping baskets at artificially low prices. In the past 10 years in Asia, for example, more capacity in polyester production has been added than existed in the entire world in 1990.

The Solution

SLIDE 4: HOW TO BUILD CONSUMER DEMAND

The only way to change cotton's declining market share, and therefore increase profitability for all in the cotton industry, is to increase consumer demand for cotton. Cotton Incorporated proved with their promotional program in the United States that consumer demand is a function of:

- the ability of the consumer to identify fiber content in apparel products;
- the education of the consumer about the many advantages of 100 percent cotton products over man-made fibers; and
- accentuation of the positive “emotional bond” already felt by consumers toward cotton.

However, we can no longer look to the U.S. and European markets alone to make up the necessary increase in demand. Instead, the growing middle class populations in emerging market countries represent an important viable market for consumer apparel and textile goods. Since the early 1990s, GDP in many of the world’s emerging markets grew at a faster rate than that of Britain, Japan, or the United States – in some cases two or three times faster.² The populations of those emerging economies are younger, forming families and are more open to novelty and advertising than the populations of the developed countries. They will either buy cotton products, or they will buy alternative products that are better promoted and made to seem more desirable.

Fiber Consumption, China

SLIDE 5: HISTORICAL FIBER CONSUMPTION, CHINA

Let’s now look at historical and projected fiber consumption in the world’s two largest developing countries, China and India.

The population of China in 2002 is estimated at almost 1.3 billion.³ An estimated 70 million consumers have the same buying power as the average-American household, and this number is expected to quadruple in the next twenty-five years.³ As you can see, per capita consumption of man-made fiber since 1980 has increased nearly six-fold, while consumption of cotton has remained stagnant at around 3 Kg per capita.

SLIDE 6: PROJECTED FIBER CONSUMPTION, CHINA

The forecast for fiber consumption over the next twenty years, assuming there is no intervention to influence this pattern, is even more bleak: man-made fiber consumption is expected to continue its dramatic increase, while annual cotton fiber consumption is expected to decrease to around 2 Kg per capita.⁴ The implications for the world’s cotton producers and textile manufacturers are obvious: if this forecast holds true, a lot of the cotton industry will be out of business.

Fiber Consumption, India

SLIDE 7: HISTORICAL FIBER CONSUMPTION, INDIA

We see a similar situation in India, another large, cotton-based economy with a burgeoning middle class market. India’s population is over one billion and is growing at a rate of 19 million per year.⁵ Gurcharan Das, former CEO of Procter & Gamble-India, estimates that one-half of India’s population will achieve middle-class status between 2020 and 2040 and that individual purchasing power of this group will climb from \$2,149 in 1999 to \$16,500 in 2040.⁶

Over the past twenty years, the trend is similar to what was experienced in China: cotton consumption remained relatively stagnant, while man-made fiber consumption increased significantly.⁴ This dramatic increase is attributed not to an increased consumer preference for man-made fiber products, but rather to the increased availability of man-made fiber products at the retail level. As with China, India represents

a traditional producer-driven market for textiles, just as was the case in the United States prior to the U.S. industry's promotion initiative starting in the early 1970's.

SLIDE 8: PROJECTED FIBER CONSUMPTION, INDIA

By applying the formula that was used to forecast China's consumption over the next 20 years to the Indian market, we see the prospect for an almost identical dismal projection. If the cotton industry does not intervene to increase demand for cotton products, cotton consumption will remain stagnant at best, while man-made fiber consumption will enjoy substantial year-on-year increases.

How to Build Demand: The U.S./Cotton Incorporated Model for Success

SLIDE 9: "THE SOLUTION"

Clearly, the cotton industry must act now to build demand for cotton products – a daunting, but not unprecedented, task. As many of you are aware, the U.S. cotton industry faced much the same challenge in the 1970's that the world cotton industry faces today: namely, the increased use of man-made fibers threatened to devastate the market for cotton.

SLIDE 10: U.S. FIBER CONSUMPTION, 1961 - 1973

Here again we see cotton's market share in the United States in the decade leading up to 1973 – the projected U.S. fiber consumption had the U.S. industry not intervened, as represented by the red line. As you can see, the situation was not unlike what is happening now in China and India.

SLIDE 11: U.S. FIBER CONSUMPTION, 1961 - 2000

However, Cotton Incorporated's enormously successful "Fabric of Our Lives" campaign served as the catalyst for increased cotton consumption in the United States. This campaign helped to shift the United States from a producer-driven to a consumer-driven textile and apparel economy.

SLIDE 12: THE SEAL OF COTTON ADS

How did Cotton Incorporated and the U.S. industry succeed in turning the U.S. market around? They aggressively pursued a multi-faceted strategy to build demand for cotton fiber. That strategy was based upon ingredient branding and promotion using the Seal of Cotton®, which came to be recognized by Americans as a symbol of quality, 100 percent cotton products. Retail branding was partnered with trade servicing, research, and the renowned "Fabric of Our Lives" campaign. Consumers soon began to seek out the Seal at retail; thus the market for cotton in apparel and home furnishings in the United States was re-born.

SLIDE 13: THE CATALYST

In the United States the catalyst was Cotton Incorporated working with a supportive industry. What will be the catalyst elsewhere in the world? Let me mention a couple of historical efforts and then mention what I think might succeed.

- The case of the International Institute for Cotton.
- The case of the San Francisco initiative.
- The case of the International Forum for Cotton Promotion.

I will speak briefly off the cuff to each of these cases, and then give you some more detail on a new initiative called the “Cotton Gold Alliance.”

Cotton Council International and Cotton Incorporated recently launched the Cotton Gold Alliance program in India, featuring the Seal of Cotton for the first time outside North America. The Cotton Gold Alliance represents a new paradigm in global cotton promotion, and we are enthusiastic about its debut in India.

The Market for Cotton Products in India

SLIDE 14: INDIA’S COTTON HERITAGE

Indian consumers have traditionally shown a strong preference for natural fibers. Cotton is a part of India’s cultural heritage and has historically accounted for up to 70 percent of total fiber consumption in the country.

SLIDE 15: COTTON IN INDIA TODAY

Cotton also plays an important role in contemporary Indian life and is, in many ways, the true fabric of India. At the same time, India is enjoying a rapidly developing middle class market. The prime market group for consumer products in India is becoming more brand conscious and is expected to respond positively to product differentiation based on branding. Such a market is well-suited to develop a preference for products made of cotton based on its positive attributes including quality, comfort, durability, style, and manufacturer reputation.

SLIDE 16: INDIA’S GROWING MIDDLE CLASS

As we see here, the number of households in India’s top two socioeconomic strata is expected to grow from 34 million in 1997 to 80 million within one decade.⁷

SLIDE 17: CROSSROADS – INDIA’S FIRST TRUE SHOPPING MALL

In addition, a strong ready-to-wear retail environment is developing within India. Investment in the retail infrastructure is expected to grow by 20 percent annually from 2000 to 2005.⁸ International retailers such as Benetton and Levi-Strauss have already entered the market; India’s first true shopping mall, Crossroads, was inaugurated in 1999 in Mumbai; and several hypermarkets are opening this year in the New Delhi area alone.⁹

SLIDE 18: RETAILING IN INDIA TODAY

With this increased sophistication and concentration in the retail infrastructure, there will be increased opportunities to communicate a positive message about the attributes of cotton to consumers, and to influence consumer preference and, ultimately, behavior.

SLIDE 19: INDIAN ATTITUDES TOWARD APPAREL QUALITY

Even more encouraging is the Indian consumer’s attitude toward cotton fiber. As we see here, Indian consumers are on par with consumers in Italy, Germany, Hong Kong, and the UK in saying they are willing to pay more for better quality apparel.¹⁰

SLIDE 20: INDIAN ATTITUDES TOWARD FIBERS

In an independent survey carried out in 2001:¹⁰

- 69 percent of Indians surveyed said, “It’s important that my clothes are made from natural fibers such as wool and cotton;”
- 75 percent of Indians said, “I think that better quality clothes are made from 100 percent natural fiber;” and
- 71 percent of Indians said, “Cotton is the best fiber for current styles.” In fact, among the countries surveyed, India had the highest percentage of consumers who shared these attitudes.

The New Face of Cotton

SLIDE 21: THE NEW FACE OF COTTON IMAGE

The success achieved in the U.S. market can be emulated in India. Cotton Incorporated and Cotton Council International have joined forces with the cotton product supply chain in India – from mills to brands to retail – to create the Cotton Gold Alliance, a groundbreaking program that aims to increase consumer preference for cotton fiber, regardless of where that cotton is grown. Working together with textile and retail partners in India, the Cotton Gold Alliance will serve as the catalyst for increased demand for cotton in much the same way that “The Fabric of Our Lives” campaign served as a catalyst in the United States.

SLIDE 22: THE NEW FACE OF COTTON OR SEAL OF COTTON IMAGE

The Cotton Gold Alliance will work to increase awareness, appreciation and preference for 100 percent cotton products through consumer and trade advertising and promotional programs in India via a multi-million dollar advertising campaign: “The New Face of Cotton.” Increased preference for cotton products will result in increased consumption of cotton at the consumer level and increased sales of products from participating firms.

SLIDE 23: CHARTER PARTNER MEMBERS

The Cotton Gold Alliance was officially launched on October 28, 2002 in New Delhi. By May of this year we expect to have the launch of the consumer advertising phase of the Cotton Gold Alliance and a highly visible presence of labeled product in stores throughout India’s urban areas. In the coming months, we will build on this momentum and anticipate this list of participating firms will grow as more textile and apparel companies, brands and retailers join in this effort to promote cotton fiber in India. Ultimately, we hope that the Gold Alliance will be essentially self-sustaining in India and we can move on to address other similar markets in dire need of a promotion catalyst.

Concluding Remarks

SLIDE 24: CONCLUSION

One of the drums I have been beating for the past few years is that a supply-demand equation has two sides – a supply side and a demand side. Far too often we economists, and others, focus on the supply side and conveniently ignore the demand side. We talk about an “oversupply” of cotton, but we rarely mention an “underdemand” for cotton. We only have too much supply if we have too little demand.

Over the past few years we have seen a slight up-tick in apparent cotton final demand in the world market. I would hope that the international efforts of Cotton Council International and Cotton

Incorporated have played a role in that up-tick. However, that final consumer demand is entirely too fragile in today's world, and is entirely too dependent upon a U.S. demand strength that is waning. We need a robust demand for cotton products at the consumer level – not just in the United States, the EU or Japan, but around the globe in markets where the consumer can afford quality, natural products and are willing to pay a retail price that helps to ensure some profitability in our industry.

Can global cotton promotion work? As they say in my native Minnesota, “you betcha!” Is it going to be easy or cheap? “Nope!”

It has been my pleasure to speak to you today about some new thinking in the arena of cotton promotion. I am confident that efforts such as the International Forum for Cotton Promotion and the Cotton Gold Alliance will pay off in one form or another. Unless we act now, markets in developing countries will continue to be producer-driven and thus will continue to increase offtake of man-made fibers at cotton's expense. We have proven it is possible to turn markets around using a combination of savvy consumer advertising, industry organization and hard work. We look forward to working with other industry and government players to extend the successful U.S. model to the global market place.

Thank you.

Sources

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