Cotton is Gold

By Doug Story

Dateline, December 2009: The economy is not doing well and the government’s efforts to pump up the economy through stimulus spending appear to be headed nowhere. In the middle of this, you have been given information about investing $10,000 of your hard earned dollars in gold or a little thought about commodity cotton ---what do you do? Gold is listed at 1075.00/oz, cotton is listed at 76.78/lb (0.048/oz).

Dateline, December 2010: We’ve seen a discussion all year about the impact of the cotton shortage on fashions, bulk cloth and international markets. How has the global market for cotton gotten into this position? Well to use a popular saying, “A picture is worth a thousand words.”….

This analysis by the U.S. Department of Agriculture illustrates the old concept of supply and demand and gives us a great picture of how tenuous the overall cotton market was, and continues to be. Cotton has been on the “short end” of the supply and demand curve for quite some time. Demand has continued to outstrip supply for the last 5+ years and unfortunately for the global supply, this commodity that was already in short supply suddenly crashed due to economic and supply disasters. The slowing of the world’s economies has put a slowdown in the demand for cotton but just as demand started to build again several of the top five global producers suffered through droughts, floods and other weather anomalies that destroyed or minimized their cotton yields.

India, China and Australia all suffered through conditions that limited their ability to keep up with their own internal demand for cotton let alone exporting to other countries. With the growth of the middle class in India and China and their huge populations in general, the demand for King Cotton soared (see Fig. 1 2009) while global production sunk to a tenth of what it once was. The “Perfect Storm” of supply and demand has now taken hold… large numbers of individuals need the product and there is very little of the product available…the price climbs! Governments have had their role in this mess as well, as a couple countries (i.e. India) decided to impose export restrictions on their cotton production in protectionist efforts for their own consumer and manufacturing demand. This trade policy only put more pressure on the global prices as this production was being removed from the global markets.

Well in a couple of words, “not good”. What else can be said? The price is high and availability of cotton is low. The supply of cotton is just not available and even if an operation were able to pay whatever price the supplier demanded, in many cases, the cotton or the fabrics made from cotton may not even be available for purchase.

This situation will put pressure on facilities to re-evaluate their total operation from the laundering of the product, to delivery and to how the product is used in the facilities that consume the final product. “How can we protect the linens we have and make them last longer?” Is and will be the most asked question. An even more important question that should be considered is as follows; “Is the quality of the cotton goods I’m buying today as good as the material I purchased last year or the year before and how do I prove this?” This is where a
good quality control program comes into play when it comes to the standards that your facility must meet with the fabrics the operation buys. If you can’t get what you need, in many cases you will take what you can get, but with a quality standards history measured against an evaluation of the fabrics that you are buying today and at least you will have an understanding of how good or how poor the materials that you have just purchased when compared with your pre-shortage goods. You will not be surprised if they do not last as long as what you had been purchasing. Make no mistake; in a time of shortage manufacturers will use whatever they can to manufacture their product. In the past, there have been reports of manufacturing plants sweeping up the lint around the plant and placing it back in production. Procedures like this and others will generate a fabric that will not last as long and will lint at much higher levels than what your operation would normally experience.

### Is there a way to minimize the impact of these price increases and shortages as a purchaser of fabrics and garments made from cotton?

This is a good news and bad news scenario.

**First the bad news:** There isn’t much you can do in regards to the prices and availability of cotton as it stands today. There just isn’t any cotton and so there is not going to be a lot of cotton fabric made and therefore your ability to buy this material at what you consider a reasonable price will be very difficult. Although, I believe the definition of “reasonable price” will change as the need for fabric for your operations becomes more severe.

Remember, your purchase of cotton goods is in direct competition with China that has a one billion plus population with a significant percentage of their population demanding cotton. Until the supply of cotton is stabilized the ability to mitigate the price and sourcing impact on your facility will be extremely difficult to accomplish. Hopefully, you have been working with and have a good relationship with your supplier; they can be of assistance during this time.

**Now the good news:** Please look at Figure 1 and you will see that production has increased to levels a little closer to “pre-shortage” levels. How has this happened? Well price and profit are the greatest “production magnates” in the world. Farmers and countries all over the world have increased production of cotton (via increased dedicated acreage) to take part in the price and profit band wagon. Let’s look at what is projected for 2010-2011 with the major cotton exporting countries:

- Australia’s out of the drought and their production forecast is up 125% over a year ago. Australia also has the highest yields per acre of any cotton producing country.
- Brazil’s production is up 49%.
- India production up 12%.
- United States up 50%.
- China’s crop is expected to decline 6%.
- Pakistan is down 8%.
- Uzbekistan is up 23%.

The cotton pipeline is being filled as production numbers are projected to climb at record rates. However, this will take time and until the pipeline is filled with cotton and the manufacturers can start running full production of that cotton, the industries and businesses that need cotton will have to deal with the price and supply issues that now exist.

Laundry operations and organizations will have to adapt financially and mechanically while they wait for the cotton production to adapt to the demand in the market place. Financially, each operation will have to implement procedures and techniques that will extend the life of the cotton fabrics or find replacement fabrics for the cotton goods they are currently using. However, finding replacement fabrics may aid in the making up for the lack of availability but many of the replacement fabrics (synthetics) are under their own price pressures due to the fact that oil prices are starting to climb again and the added pressure of being a replacement fabric has put greater demand on these items as well. So financially, extending longevity, a re-evaluation of PAR levels and quality levels will be in order to minimize as much as possible the burden on budgets. Mechanically, the operations are going to have to put in place laundering processes that protect the fabrics as much as possible while still producing hygienically clean linens. For example:

- Minimize damage to fabrics during the handling of the goods during finishing and shuttle activities (i.e. dropped on concrete floors, hung in cart wheels, etc).
- Modify procedures to process alternative fabric types (synthetics, synthetic blends, animal and alternative plant fabrics).
- Minimize losses due to theft, hoarding, etc.
- Maximize repair services that can keep linens, fabrics in service.
- Modify quality control procedures that may be a little more forgiving on both the finished goods as well as on the quality of new fabrics that may be available.

Analysis and implementation of financial and mechanical controls in the laundry operation will aid in minimizing the overall impact of the cotton shortage on your budgets and customers.

In summation: The cotton shortage has put major pressure on the price and sourcing of cotton and non-cotton goods and fabrics. However, this shortage, like the others before it, will be 1.0 to 1.5 years in length before the supply comes back to the 2006 – 2007 levels. Unfortunately, cotton demand has always been more than cotton supply and I don’t think a large
or even significant drop in the price of cotton will occur. China, Pakistan and India’s populations are continuing to grow and become more affluent and thus drive demand for more cotton in these markets. The price fluctuations and supply shortages will be dependent on how fast farmers and new land resources can be opened up to produce more cotton to meet the demand. Which begs the question, what is going to happen to food prices if land is diverted away from raising food to raising a cash crop like cotton?

**What happened to our investment?**
If you invested in Gold your $10,000.00 investment would have grown by about 28% during this time!

If you invested in Cotton your $10,000.00 investment would have grown by about 104% during this time! Your investment would have grown almost four times larger than what gold would have given you.

**Cotton is Gold and King!**

1. Interview with Mark Myers, National Sales manager at Lanier
2. “Cotton Production to rebound on strong market prices”, United States Department of Agriculture, December 15, 2010 (Global)
3. “Cotton Production remains concentrated with rebound in 2010”, United States Department of Agriculture, July 14, 2010
4. Interview with Bob Daughtry, Owner Maple Springs Laundry, Hickory, NC
5. Mundi Index Cotton Commodity price index and business information.

Douglas Story serves as VP of Innovation for Swisher Hygiene Inc Charlotte, NC. He is a Biology/Chemistry graduate of Western Carolina University and an MBA from Loyola University in Chicago, Illinois.

“The laundry business has a great future but it will be our responsibility to make sure the business keeps up with the changes that can satisfy the needs of the customer, the employees and the business”

He currently resides in Memphis, Tennessee with his wife and 2 daughters.