SELLING OUR FUTURE:

The importance of 'branding' Australian cotton

Peter Corish
Chairman Cotton Australia
Chairman Australian Cotton Industry Council

Marketing, specifically *generic* marketing, must be one of the linchpins of any strategy to "cover our future". The fact that generic marketing must be done is a given. It has been recognised as a must for all bodies involved in marketing Australian cotton in some shape or form — Cotton Australia, the Australian Cotton Shippers' Association, and the Association of Cotton Systems Spinners'.

What is not clear though, is exactly what direction generic marketing should take, or which body or bodies should be undertaking it.

In this paper I have attempted to raise the salient issues to be addressed before we, the industry as a whole, can move forward in this area.

1. WHY GENERIC MARKETING

There are two aspects to this *generic* marketing we speak of: One is the marketing of Australian grown cotton as a 'brand' — that's raw cotton, cotton yarn, fabric and garments — on the strength of our quality and consistency; the other is marketing cotton *vis a vis* man made fibres.

But why should we expand from the sales-type marketing our marketeers are already doing and doing so well? After all we have never, in the history of the Australian crop, failed to sell the entire crop in the year it was produced!

Well in my mind there are four compelling reasons why Australia really must address *generic* marketing. Of the four, not one is more urgent or more important than any other — in my view they are all as urgently in need of attention as each other.

1.1 Production v Consumption

The first one is that **Australian production is outstripping consumption growth in some of our target markets**.

Barring drought it is reasonable to expect Australia's production levels will remain in that band between 2.6 and 3.2 million bales in the near term (635,600 - 726,400 tonnes) — rapidly increasing to the high 3 million bale mark if (or when?) new developments in WA and Central Queensland come on stream.

At the same time as our production is increasing, several of our historical target markets — Japan, Korea, Hong Kong and Taiwan — are experiencing reduced consumption resulting in import reductions. In July 1996 (well before the currency crisis) it was predicted that this reduction would be *partly* offset by an additional consumption of around 453,000 tonnes in Thailand, Indonesia, Malaysia, China and the Philippines. Nevertheless, the Australian Cotton Shipper Association's Export Market Development Plan painted a relatively bleak picture:

> *At Australia's current level of market share in each target country, these increases will not be sufficient to offset the additional export volume from Australia. In fact, if Australia's current market shares in each target country are maintained, only 278,000 tonnes of the total 562,000* [1996 projection of 2000 production] *tonnes available for export will be consumed by our key target markets.*
>
> *Even at record market shares for each target market, a surplus of 94,000 tonnes (414,097 bale equivalents) would result. Australia's cotton exports to its current target markets would drop from its current average in excess of 90% to a record low of 83% of total exports.*
>
> *This means that if Australia's exports reach 562,000 tonnes by the year 2000, significant increases in market share, combined with new market development will be required to market this additional volume.*
>
> (Australian Cotton Shippers' Association. Export Market Development Plan. July 1996)

And this was prior to the upheavals throughout the region over the past 10 months or so! And it was a 1996 projection of 2000 production — 2000 exports are much more likely to be around the 700,000 tonne mark. With regard to the depressed economies of our major trading partners, there is a glimmer of hope in the fact that textile industries in the Asian countries are, or can be, export focussed, and therefore they are likely to be targeted as leaders of their respective countries' recovery. The fact that they are likely to be targeted to lead the recovery provides Australia, one of their nearest neighbours, with tremendous scope for partnering them in rebuilding their businesses and thereby fostering long-term relationships.

How do we cement these relationships? They are relationships that have been very successfully driven by the commercial competitiveness of Australian merchants and traders to maximise returns on available volume from sales of cotton and from basis trading operations. But, as we have learned at our expense recently, they are fair weather relationships.

1.2 Easing our Vulnerability

Another salient reason for generic marketing is our **export dependence**. We are the most export intensive producer in the world — 7th largest producer, 4th largest exporter. Furthermore, our eggs are largely in the proverbial 'one basket': In 1995, and I have no reason to believe the ratio has changed, Asian-based spinners accounted for over 90% of our exported crop, up from 80% a decade before. We saw that market share come under threat when, right at the outset of the unfolding currency crisis, the US moved rapidly to not only shore up its existing market but also to build market share at our expense by offering generous credit facilities.

The quick response of our principal competitor in capitalising in this regard was, despite our cries of avariciousness and foul play at the time, a masterstroke for them and a valuable lesson for us. Just how they could move so fast we need to ascertain. Did they have a contingency plan for just such a crisis already waiting on the shelf?

> Washington, January 5, 1998.
> *Agricultural Secretary Dan Glickman today announced a $545million increase in credit guarantees for the Philippines, Indonesia, Malaysia, Thailand and Singapore to make it easier for buyers in those countries to import US agricultural commodities and products. As a result more than $1billion in credit guarantees are now available to these countries...*
>
> *Although total cotton imports ... will decline, US suppliers may be in a position to increase their market share... [because]... increased interest in the [credit guarantees] among local mills may eventually lead to increased utilisation, thus increased sales for US suppliers.*
> Extract from media release published on USDA World Wide Web site. Attache Query Detail

Australia responded with its EFIC provisions a full month later. In fact, a week after CA executive director Gary Punch and I met with the Minister for Primary Industries and Energy, John Anderson, on behalf of the Australian Cotton Industry Council, to stress the need for speedy government action to protect our market share in Indonesia.
ACIC asked the federal government to: strengthen and broaden the Export Finance Insurance Corporation's (EFIC) provisions to include cotton; make diplomatic representations to the United States to respect Australia's market share; and to continue lobbying banks to maintain country limits.

But the fact remains that with the expected continuing decline in consumption in real terms (that is, consumption per head of world population is declining) pitched against increases in worldwide production, the international marketing strategies of our principal competitors will be tuned and honed and re-tuned and revved up in aggressiveness. This is international marketing, not cricket!

With our huge dependence on well priced export sales, we too have to sharpen our aggressiveness or be continually crying 'victim' as we had to this year.

How do we immunise against such exposure? Do we continue to target this group of countries almost exclusively or do we look for new markets to complement our traditional one.

1.3 Capturing the 'green' market

A third imperative for generic marketing, from the perspective of Australian cotton, the brand, is the increasing **consumer dependence** on **sustainable production**. Of the four reasons this is the one we take least notice of, the one that is futuristic and therefore easy to overlook. It is the one that, if we are not careful, will rise up and bite us before we even realise it has passed gestation.

I hear us, so many of us, express the sentiment "thank goodness the brouhaha about cotton production hasn't translated into sales (or non-sales) of cotton products". The time has to come. Organisations like Pategonia, which has some clout in the US and Europe, includes diatribes on conventionally grown cotton in every mail order catalogue they publish and subsequently distribute to subscribers around the world. At the Public Relations Institute of Australia conference in 1996 one entire session was devoted to building niche markets with sustainably produced products.

Although conventionally grown cotton fibre itself is natural, it is hardly a natural product because it is so chemically saturated throughout its life cycle.

Before planting, the soil is chemically sterilised, so that its sole function is to hold the plant mechanically in place until harvesting. The plant is then treated with heavy doses of synthetic fertilisers, insecticides, herbicides, fungicides and, in warm climates, defoliants.

These chemicals are among the most toxic substances in commercial use; they cause irreparable harm to the environment and to the people who work in the fields and live in the surrounding communities.

from Patagonia Organic Cotton brochure, 1996

We, as an industry, have suffered some pain over the last 10 years with regard to our perceived environmental record, and I think its about time we turned all that to our gain.

I believe that as a group, we are now the best cotton farmers in the world in terms of ecological sustainability. With a high adoption of BMP over the next few years, and widespread accreditation of farms to either the ISO 14000 or 9000 series we will have a very tangible marketing asset. Certainly it must be counted a major asset in marketing to the "green-aware" countries in Europe and Canada and, dare I suggest it, the US itself.

Add to BMP, IPM, improved water use efficiencies and the Bts and naturally coloured cottons, and I believe sustainable production has the potential to become, in economic terminology, our principal *comparative advantage*. .

Do we seek out niche markets and become a price maker in the process?

1.4 Re-capture Market Share

The fourth reason for generic marketing is to **halt cotton's slide in share of the world fibre market.**

Population growth is now the principal factor in increases in cotton consumption, ensuring that while the total amount of cotton consumed does increase marginally each year, in real terms — that is, in terms of its share of the world fibre market — consumption is steadily declining.

1960s	60%
1980s	47%
1990s	46%

This fourth reason has been the subject of much international debate between major producer/exporter nations. It is the reason behind the so-called Global Cotton Project (GCP), an idea that grew out of a meeting of like minds at the Rabo Bank International Cotton Conference held in San Francisco in March 1997. A self-named 'world cotton working group' formulated objectives for the project and then approached management consultants McKinsey & Company to establish an approach to address those objectives.

The approach is modelled on Cotton Inc's initiatives. From the 1970s industry funds were contributed through assessments on the cotton contained in textiles and other goods grown in and imported into the US — around $1 per bale and half a per cent on product value. The funds are invested on behalf of the industry through Cotton Inc, a private company owned by US cotton farmers.

Two thirds of the money is spent on promotion and one fifth on textile research, including mill process improvement and fibre and textile development. Agricultural research receives 10% of funding, while the balance supports the overall effort.

This investment paid off by firmly establishing a consumer preference for cotton. Market share was re-captured moving back toward 60% of all fibre consumed. According to Cotton Inc (using research by Texas A&M University), every 10% increase in promotional expenditure yielded 2 million additional pounds per month consumption. It says pay-off from research was twice this figure; and that for every dollar invested by the industry six dollars was returned as the program matured.

Essentially the GCP proposal is that key industry stakeholders in cotton producing nations contribute funds for a 'seed' project "with the objective of developing the elements of an high-impact global industry program...[which] would evaluate a wide range of ideas, drawing the best together into concrete initiatives with clear implementation and organisation plans, funding and governance mechanisms. The stakeholders would then have to make a commitment to further action, funding the proposed initiatives and getting on with the job of lifting industry performance."

Australian organisations were approached for indications of their support about 15 months ago and, at the time, Cotton Australia did allocate funds to the pool of funding from the Australian industry. When other players in the industry decided not to support the project, or at least to delay support until such time as there was some clearer direction, CA funding was also put on hold.

2. WHO SHOULD PROMOTE

The eight companies engaged in the merchandising and export of Australian raw cotton have stood us in good stead over the years. Compared to our peer industries with their single marketing desks we, the Australian cotton growers, have gotten exactly what we wanted — entire crops sold in the year they are produced at competitive prices.

When the Australian Cotton Shippers' Association — the non-profit organisation that represents all eight of the marketing bodies — undertook a SWOT analysis of marketing, some of the weaknesses it identified were:

- *Intense competition between Australian merchants undervalues the product, particularly during the second quarter*
- *Merchants may be competing against each other, rather than against competitors, by employing the same or overlapping agents in certain markets*
- *No central source of power, strength, influence to represent all industry sectors as compared with major competitors*
- *Lack of a marketing plan and initiative to maintain Australian cotton's world market competitiveness*

According to ACSA, the way to overcome the first two is to "Develop a unified marketing program to promote Australian cotton". And, to address the second two it recommends we "'Create' an industry body which can represent the whole industry and manage the promotion of Australian cotton".

Well I reckon they got it right. We do need a unified marketing program to promote Australian cotton and what's more, since they made their suggestion an industry body has been 'created' that can manage the promotion of what I have called throughout this paper the Australian cotton 'brand'. That body is the Australian Cotton Industry Council.

The Australian Cotton Industry (ACIC) Strategic Plan suggests that a cross-industry goal must be establishing an 'Australian premium' on world markets. The advantages of ACIC spearheading our brand marketing are that it represents all the sectors involved — growers, merchants, spinners — and can draw on expertise from its other members like the classers and researchers as needed.

And, operating under the ACIC umbrella we are much more likely to gain the ear of government in trying to stich up things like contingency plans that allow us to act swiftly to save export contracts and long-term relationships should a situation like the recent Indonesian one arise again. Referring back to our discussion with Minister John Anderson in January that I mentioned earlier in this paper, I believe that a major reason for the successful outcome was the fact that Gary and I went with our ACIC hats on — that is, we were speaking on behalf of the entire industry.

I should point out that discussion of generic marketing is not exclusively the province of future vision. Limited — you could almost say 'pilot' — joint international marketing activities have already been tried and have proven a success. Last year Cotton Australia, the Association of Cotton Systems Spinners and ACSA combined to represent Australian cotton at Interstoff, the largest fabrics trade show in Asia. In addition to the Australian display and the purpose-produced brochures and video, Gary Punch and I hosted a well-attended reception at the Australian Senior Trade Commissioner's residence.

The interest generated from both the stand and the reception in Hong Kong was remarkable. Indeed, the Hong Kong representative of one of our major marketeers commented that despite hiring the most exclusive venues to host buyer relations functions, he consistently failed to draw their attendance while we, representing ACIC and under the auspices of Austrade, had outstanding success in getting the key decision-makers together in the one room at short notice.

Mr Urs Riederer, president of Sunrise Resources Ltd which is Cotton Trading Corporation's agent in Hong Kong, went further suggesting Cotton Australia (on behalf of ACIC) follow Cotton Inc's lead and establish an office in the region.

ACSA's SWOT analysis, mentioned earlier, was undertaken in order to develop an Export Market Development Plan so that it could, in turn, apply for an Export Market Development Grant from the Federal government. The Grant, approved in July 1998, will run for three years and will rebate the industry for up to 50% of costs incurred on activities associated with the Plan, including trade fairs like Interstoff. ACSA and CA are currently designing activities to meet the goals of the Plan.

Whether ACSA is keen to pursue its own generic marketing through this grant funding, or whether it is open to working through ACIC has probably not been determined yet, and there will be, I'm sure, some pressing pros and cons that have to be weighed up before ACSA can make that decision.

But the point is that whichever direction we go in — whether CA and individual marketeers put money in to the Global Cotton Project, ACSA manages its own program, and the spinners fend for themselves; or whether we combine — generic international marketing is going to require a considerable investment from the industry.

Just what level of investment should we be looking at? As a bit of an indicator to guide our discussion on this, I have listed a few activities we would need to undertake. The operative word is 'few' — a comprehensive list of activities in a well-worked plan would take up pages.

- market intelligence
  identify potential consumers in all markets; identify key government officials in each market; research consumer preferences in all markets; develop relationships with all relevant Austrade posts; develop news discovery systems; monitor trade mission opportunities

- database and maintenance
  all market intelligence available in easily and widely (among Australian industry participants) accessible electronic form. Information to be constantly reviewed and updated.

- promotional materials
  develop videos, brochures, web site etc in the language of each target market. These must be produced according to well developed marketing plan for each market.

- presence at two major expos/year (Europe and Asia)
  expand our presence at Interstoff each year, and replicate for the European market. Attention drawing stands should be created in line with Australia's reputation for professionalism and quality

- relationship building exercises like trade delegations to determine consumer preferences through regular visits with consumer in all markets establish close, reliable and quality service relationships

- continual presence in main target area (ie Asia)
  open a representative office in a central location to service Asian market

- partnership initiatives
  consider entering into partnership arrangements with consumers that will lock them into long-term trade arrangements

- maintain media profile in target markets
  based on a well-planned media strategy for each market, cultivate key journalists and continually promote advantages of using Australian cotton.

3. THE MAKING OF OUR MARK

If the umbrella organisation coordinating this is ACIC, the umbrella trademark that encapsulates our quality product must be the Cotton Mark.

The Cotton Mark is the entire industry's Mark. To become internationally synonymous with Quality Australian fibre, the Cotton Mark must be more than a tag hanging off a garment — it has to become the signature on individual farmer's module covers, on CGA letterheads, at trade shows and media events, on export bales, and on yarn and fabric bundles.

If we want designers and retailers to carry the mark, we have to first give them a reason, we have to give them strong brand loyalty to leverage off.

When the Mark is displayed everywhere there is quality Australian cotton and quality Australian cotton growing and promotional activities, when it is truly synonymous with Quality, we will have covered our future.

References

Export Market Development Plan July1996, Australian Cotton Shippers' Association

US Credit guarantees January 1998, USDA World Wide Web site

Patagonia Organic Cotton brochure 1996, Patagonia Public Affairs