



From Cotton To Retail: Consumption & Future Implications USDA Outlook Forum



By Robert Antoshak
Managing Director



A Word About Olah Inc.

— [Founded in 1959, Olah Inc. is a global textile and apparel development and marketing firm with offices in New York, Los Angeles and Hong Kong.

— [Supported by dozens of experienced cotton, textile and apparel professionals, consults to textile companies, retail and apparel brands throughout the world.

— [Created and hosts the internationally-renowned Kingpins Show.

— [Holds the apparel marketing license for Bayer CropScience's FiberMax and Stoneville cotton.



“There’s Very Little Cotton Out There...”

— [“There’s no cotton – there’s very little cotton out there,” said Joe Glauber, USDA Chief Economist. FINANCIAL TIMES, February 11, 2011

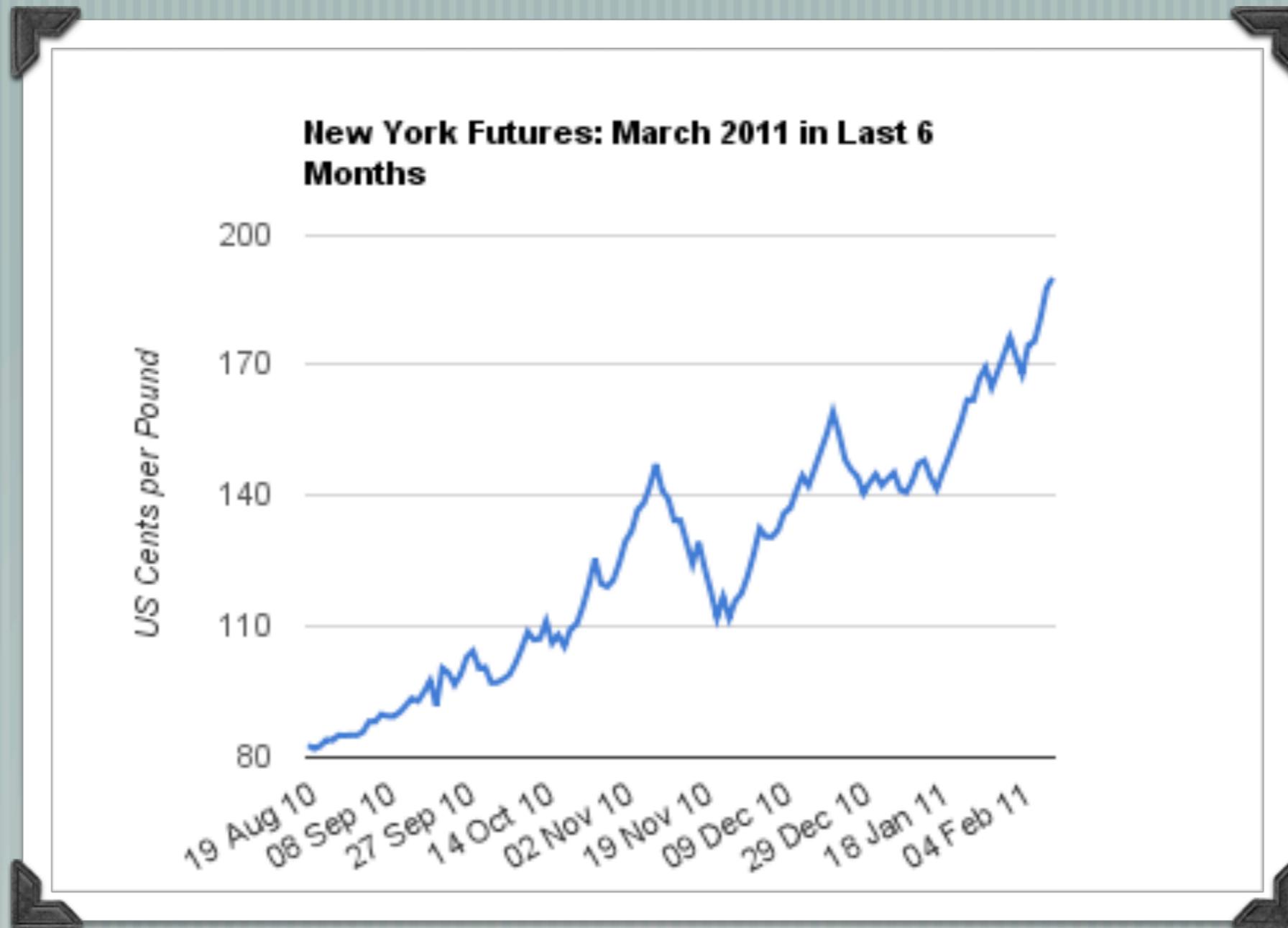
— [“We are finding that in many instances, it's difficult to get finished cotton materials. When we are able to write an order, we find the cost has escalated. Right now, there is a panic setting in. Everyone is trying to make sure they are not short, ” said Jack Oulette, CEO of American Textile Co. PITTSBURGH TRIBUNE-REVIEW, February 12, 2011

“There’s Very Little Cotton Out There...”

— [“Clothing prices will not double because of doubling cotton prices. Marketing margins are going to have to be squeezed, somewhat,” said Terry Townsend, executive director of the International Cotton Advisory Committee. WALL STREET JOURNAL, February 12, 2011

— [“The bulls have gone berserk, and it looks like they want prices to go higher,” said Sid Love, President of Joe Kropf & Sid Love Consulting Services LLC. BLOOMBERG NEWS, February 17, 2011.

And, Of Course, At The Same Time Cotton Prices Did This ...



Source: ICE

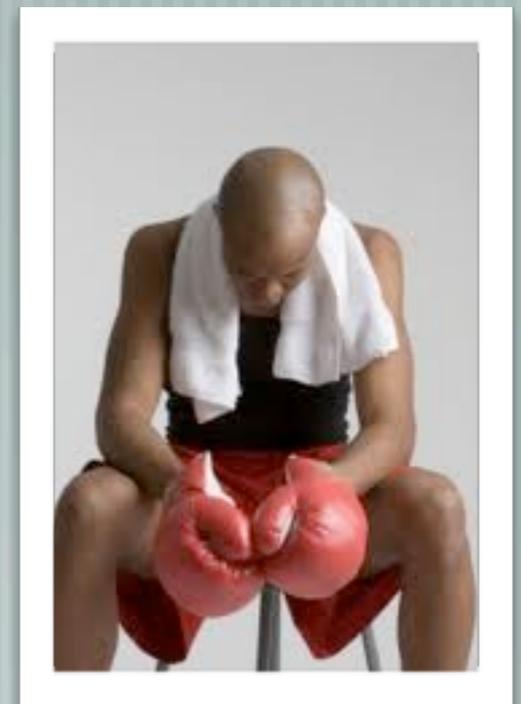
What's Been The Result?



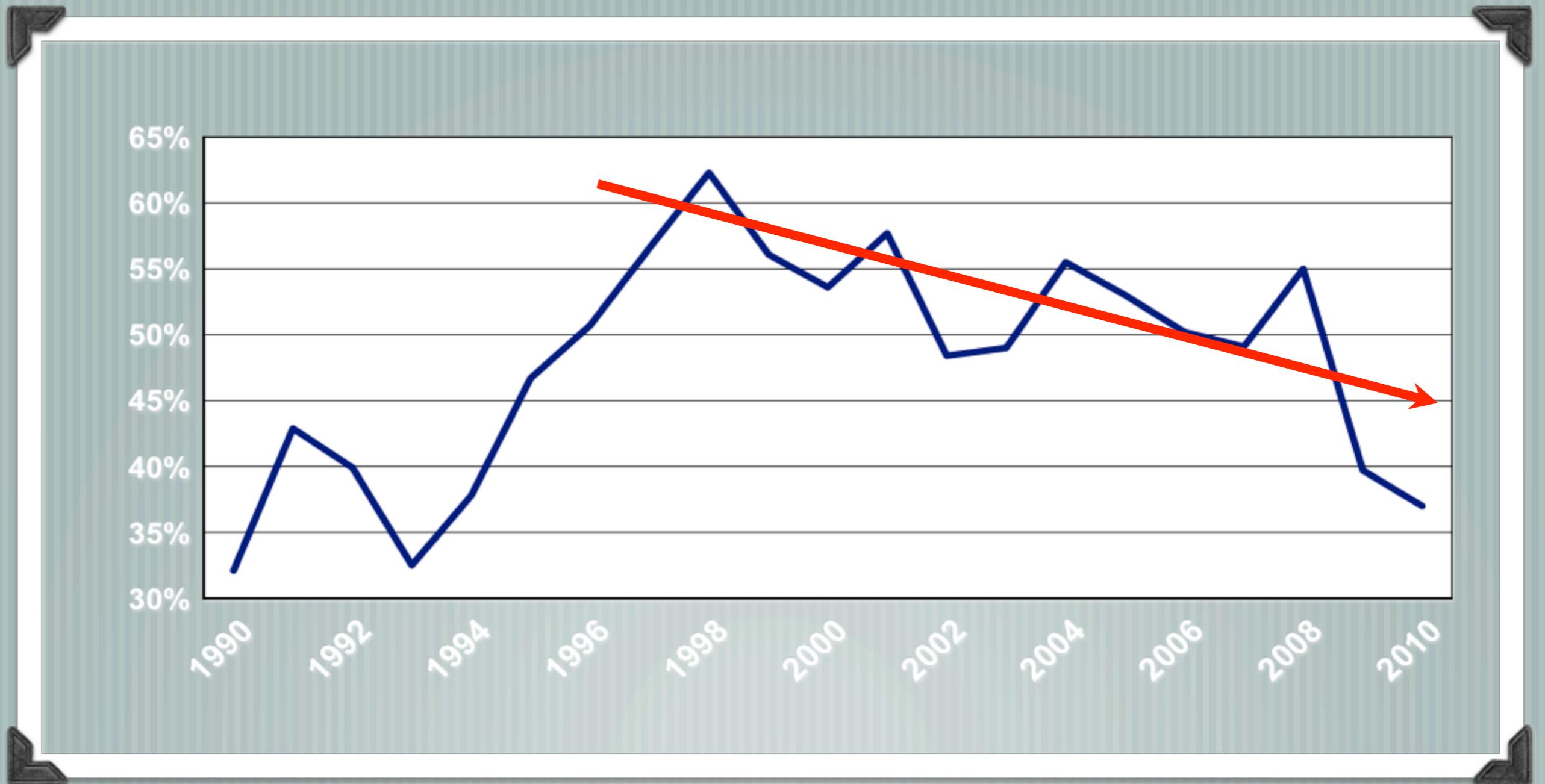
Bottom-Line?

— [Thanks to the recent run up in cotton prices ...

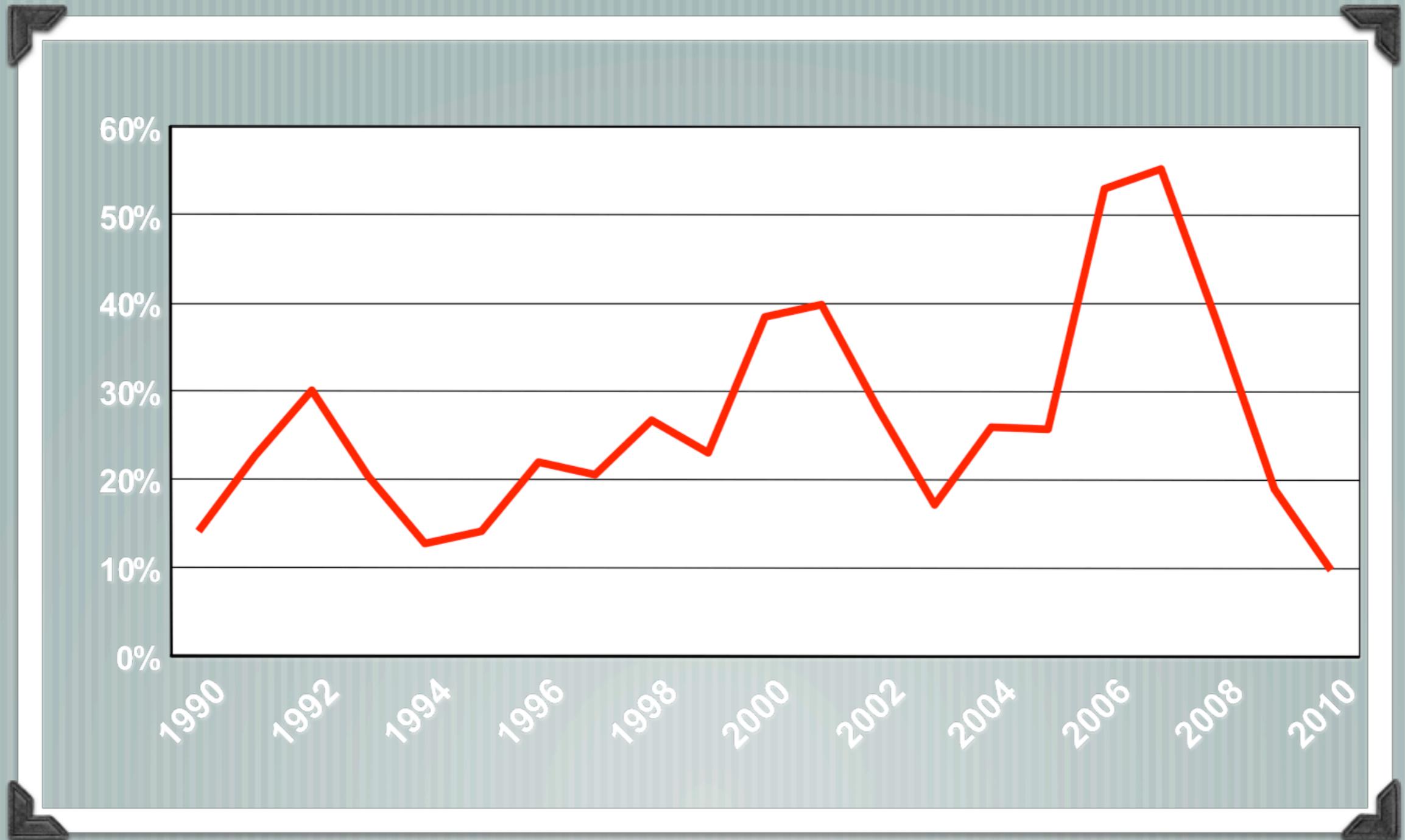
— [An already tough business – textiles, apparel and retail – just got a lot tougher (not that cotton farming is easy)



Higher Cotton Prices Have Been Building Steam For Years: Weakening Global Stock-To-Use Ratios



The Recent Drop In U.S. Stocks-To-Use Ratio



Is This Spike In Prices For Real?

- [Some people think this was another speculative bubble like was saw in 2008.
- [But there are significant differences this time – in particular, demand for cotton has risen with futures prices.



Does Cotton Add A Lot Of Cost?

Simply asked: Does cotton add a lot of cost to clothing?

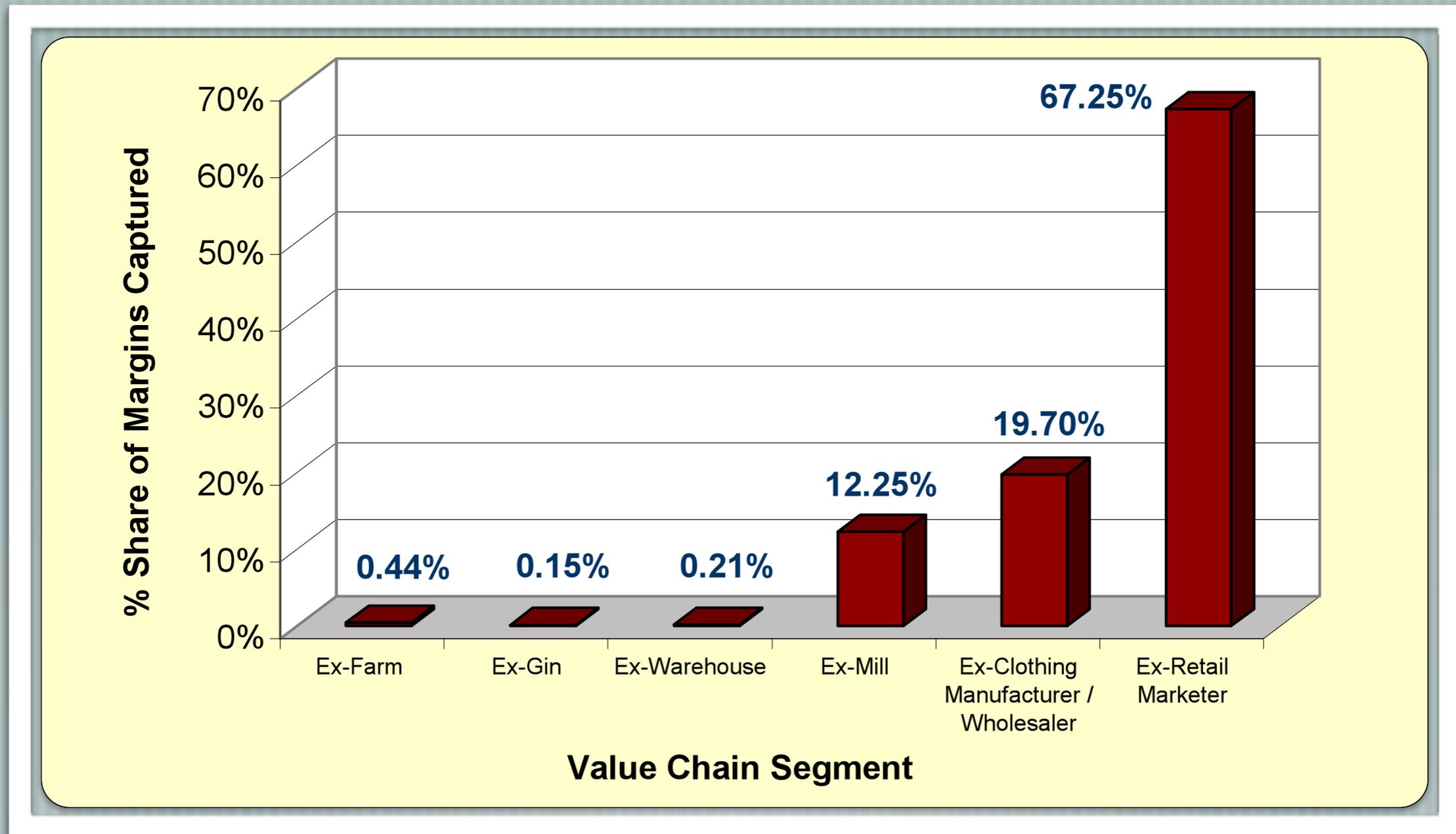


Answer: It does for a spinner.

Did you know? About 80% of a spinner's cost is in raw fiber.

But for finished clothing it's a whole different matter ...

% Share of Total Retail Value



The closer the segment is to the farmgate, the more price sensitive to cotton prices.

An Example: Theoretical Pass-Through For Cotton

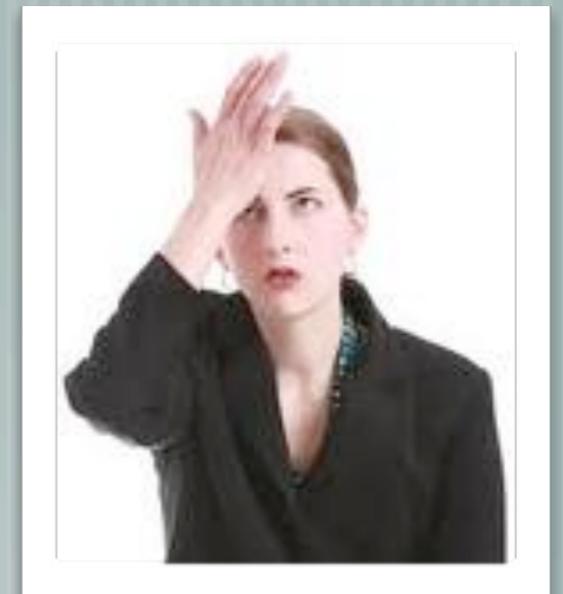
Product	Avg. Retail Weight (lbs)	Total Cotton Required (lbs)	Theoretical effect of add'l \$1/lb
T-Shirt	0.60	0.64	\$0.64
Polo Shirt	0.80	0.86	\$0.86
Woven Shirt	0.70	0.84	\$0.84
Jeans	2.00	2.50	\$2.50

Pass-Through Cost vs. Retail Price



So What's The Big Deal About Dollar More A Shirt?

- It's a big deal for clothing and retail companies!
- For a company that sells 10 million shirts a year (not too big a company, BTW) that translates into \$10 million of cost that needs to be offset somewhere.
- A rise of \$10 million for a \$100 million company is a lot of margin to give up or to pass on to their customers!



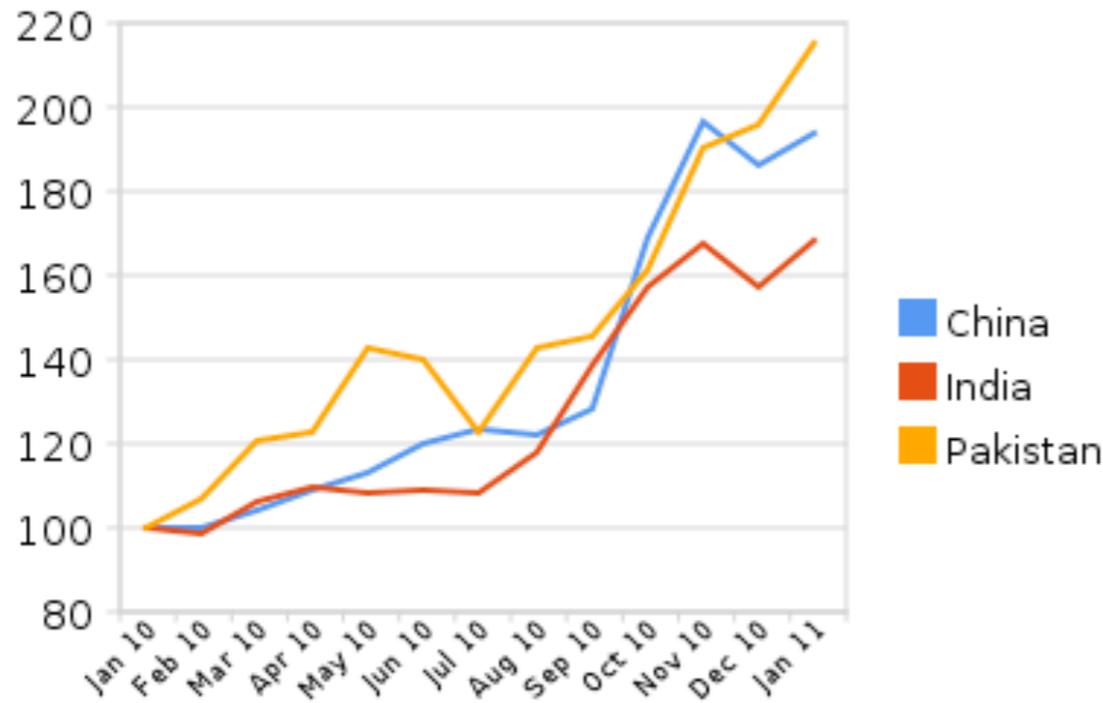
So Are There Options To Cotton?

- Yes, but ...
- The blending option: run more polyester
- Two major reasons to do this: Price & Availability
- Let's look at each separately ...



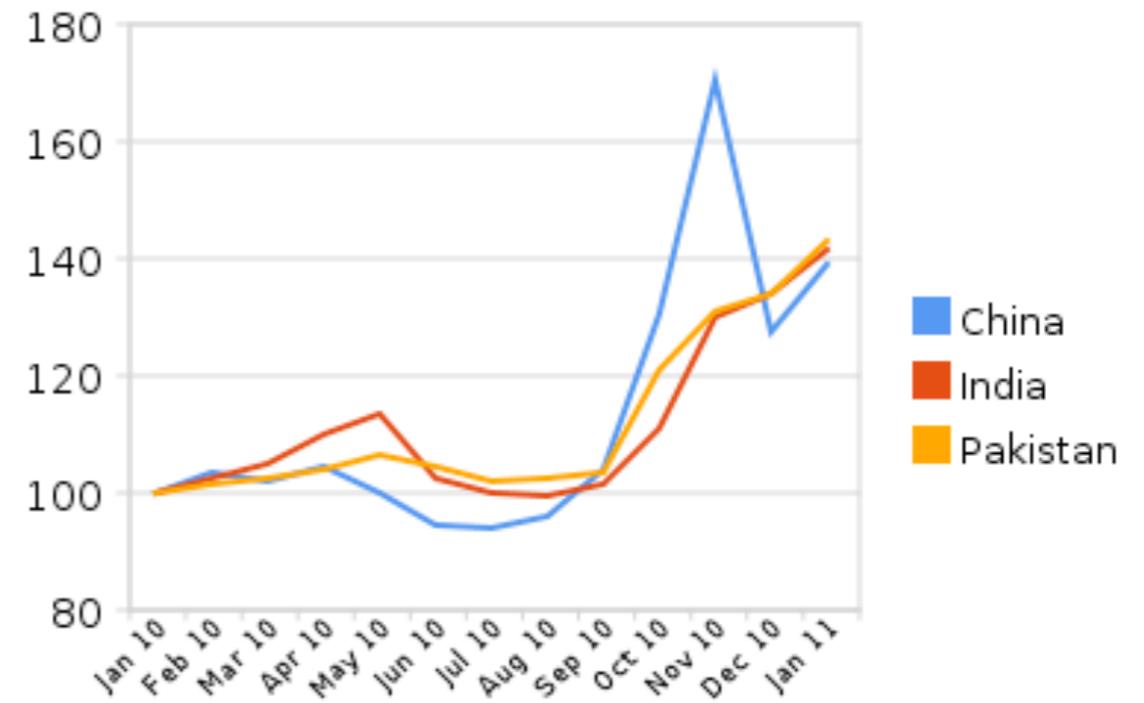
Is Polyester A Good Substitute Based On Price?

Cotton Prices in US\$ Terms



1 Year Ago = 100

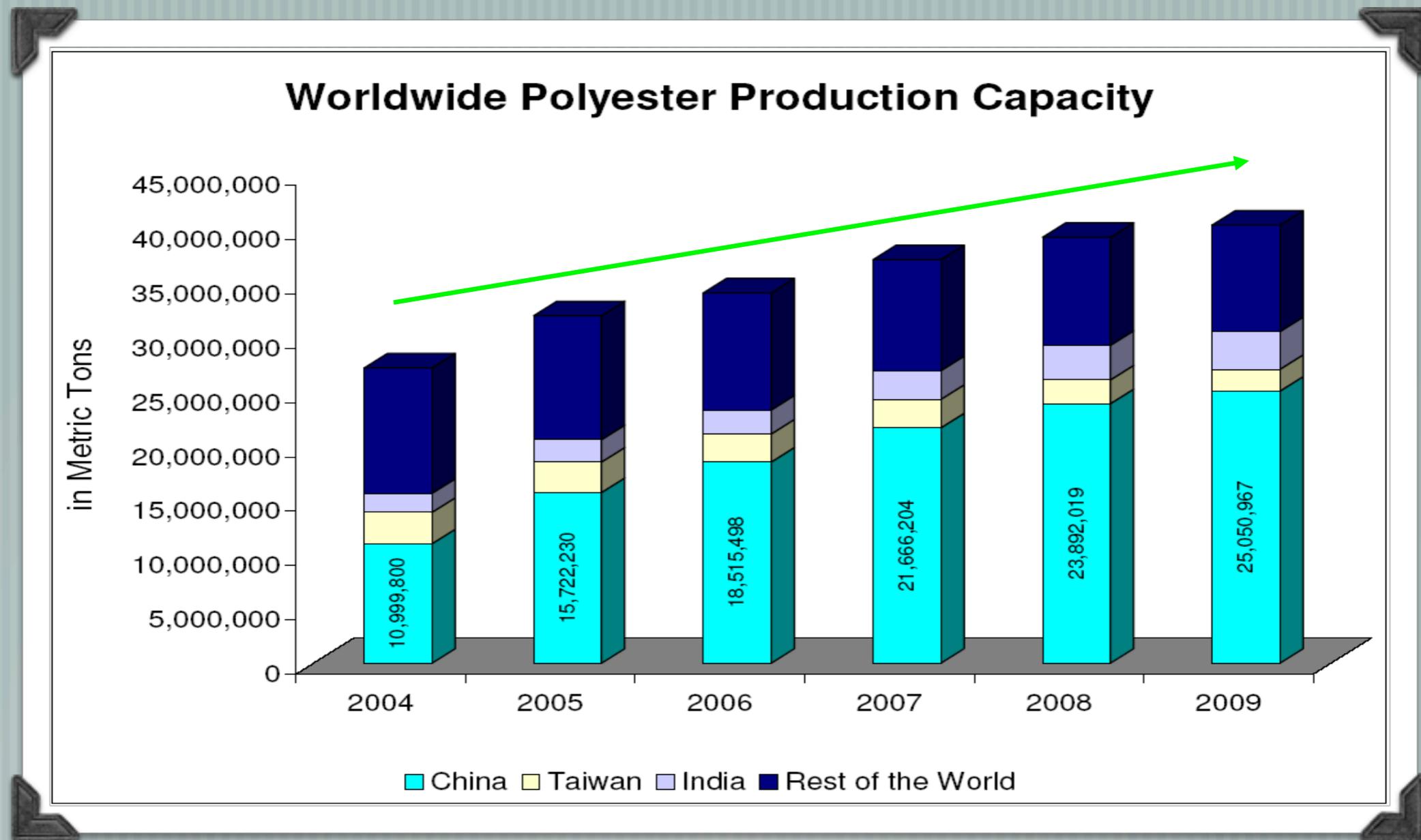
Polyester Prices in US\$ Terms



1 Year Ago = 100

Source: EmergingTextiles.Com

What About Polyester Availability?



Source: FCStone Fibers & Textiles

So ... My Point Is ...

- Polyester is an uncertain option based on price
- But it is a good option when it comes to availability
- But what will consumers think? And that's the rub for a retailer – they really don't know.
- Just like retailers don't know if consumer will pay more for a garment, they also don't know if they're willing to wear more synthetics, which is really important when the organic and green movements are considered!

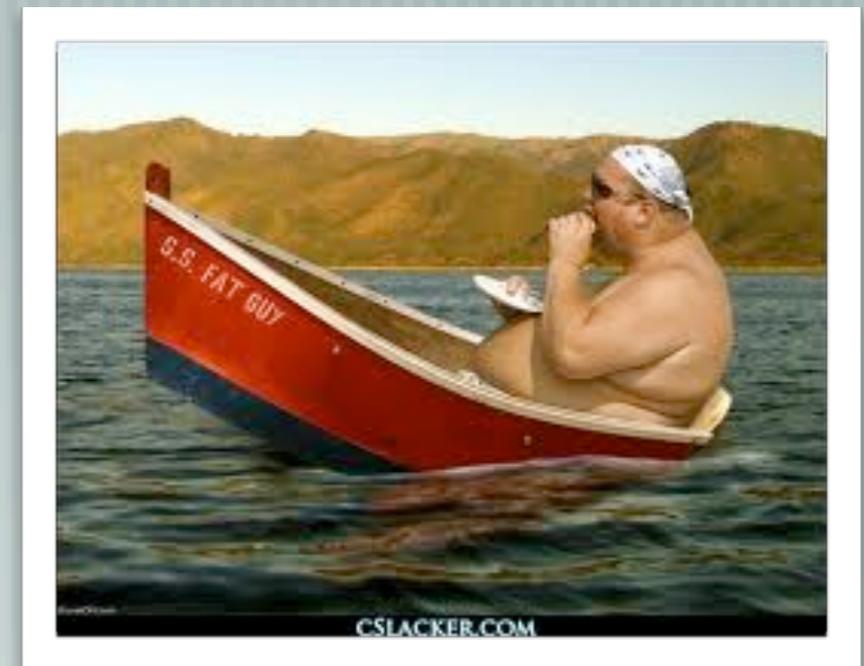
What's A Retailer To Do?

- There's not a simple answer to that question, but a lot can be learned from looking at what's happened to the trade over the past twenty years or so ...



The Big, Bad MFA

- More than any one event affecting the global market for textiles, the MFA did the most to build overcapacity



Which Is Why Today's Industry Acts As It Does ...

- The global textile industry may be summarized as follows:
 - Too many producers chasing too few customers and the customers know it!
 - Rising input costs: more expensive energy, fibers, cost of operation - inflation!

And Has Set Up The "Big Squeeze"

Customers

Lower Prices

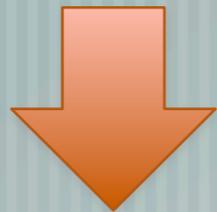
Suppliers

Higher Costs

And Has Set Up The "Big Squeeze"

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Lower Prices

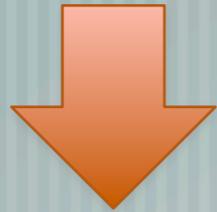


Suppliers

Higher Costs

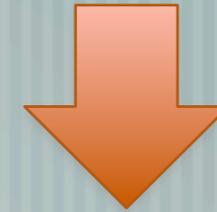
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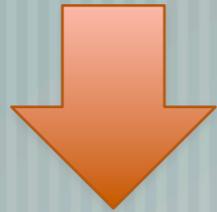
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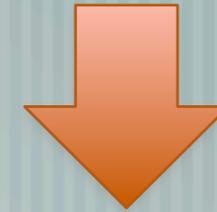
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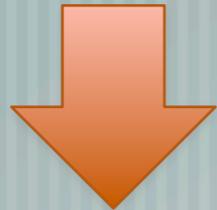
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Higher Costs

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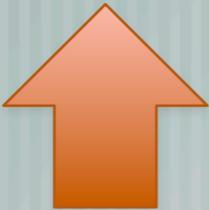
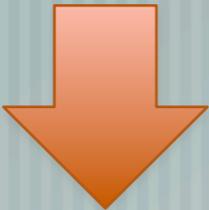
Lower Prices



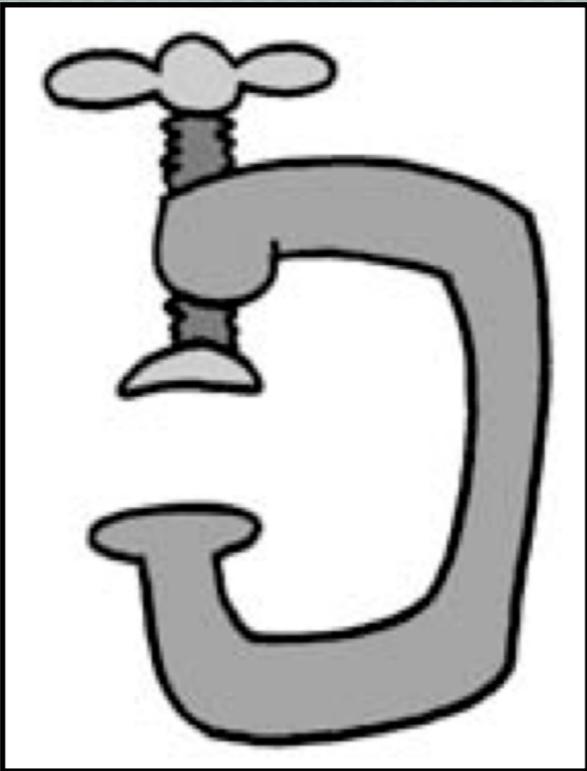
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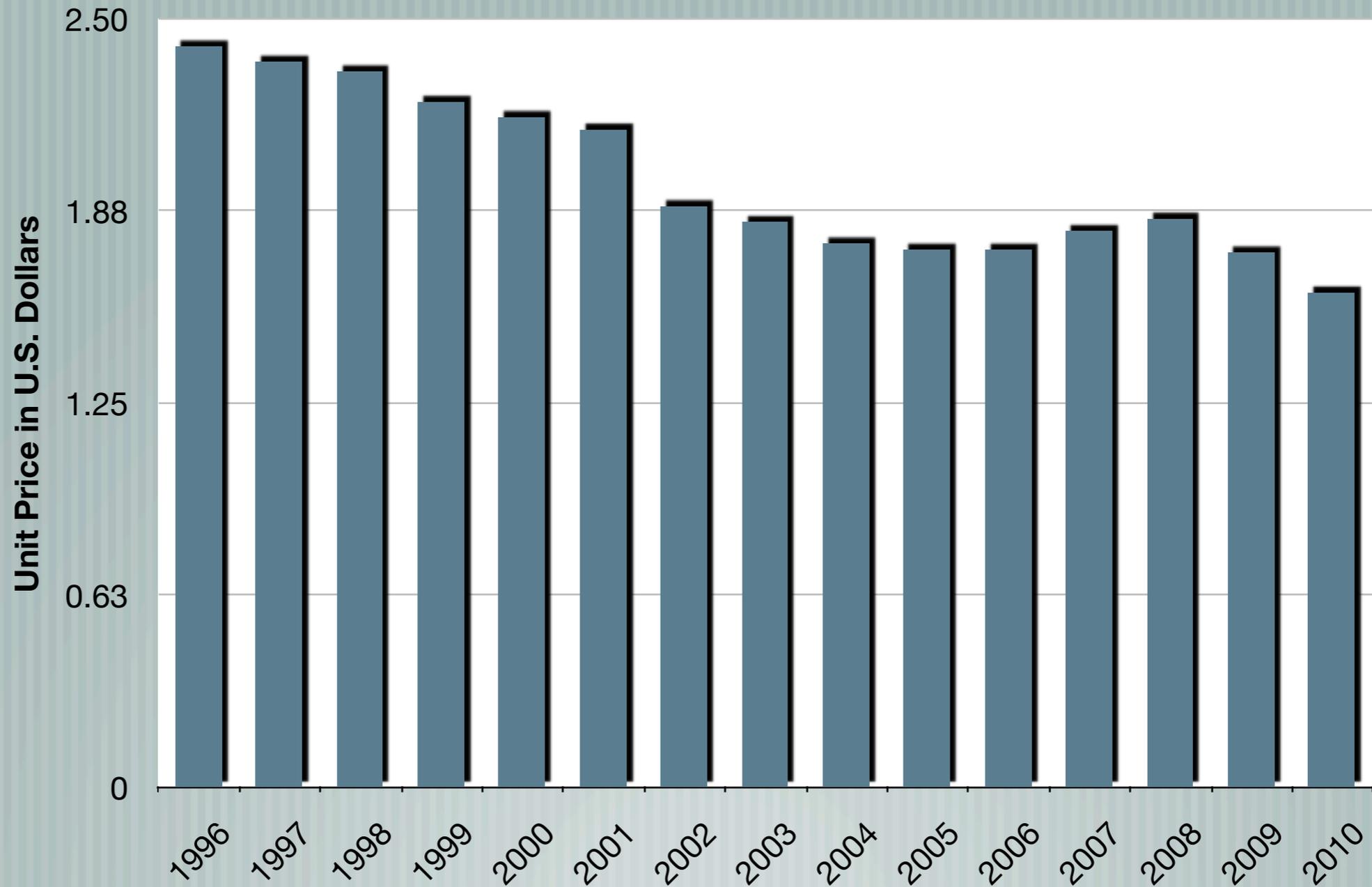


Lower Prices



Higher Costs

The Squeeze: Retail Buyers Cut Prices to Lure Customers



Source: OTEXA, Dept. of Commerce

But There's More To The Story ...



It Was The Heyday Of Sourcing!

- If one supplier couldn't meet the specs, then sourcing people could find or eager suppliers to fill it's place
- The result: prices could continue to fall
- A strong dollar didn't hurt either!
- The supply chain was squeezed until ...

The Supply Chain Strikes Back!



This Will Be The Story Of Our Times In The Garment Business.

- The jump in cotton prices has actually helped the supply chain to push price increases downstream.
- At the same time, weaker players will be driven out – both at the manufacturer and retail level.
- Inflation will increasingly come to dominate the entire textile supply chain.
- Those who don't figure out how to cope with environment will be out of business, but that also means there will be less players around to compete for business.

Remember, Retailers Had An Advantage

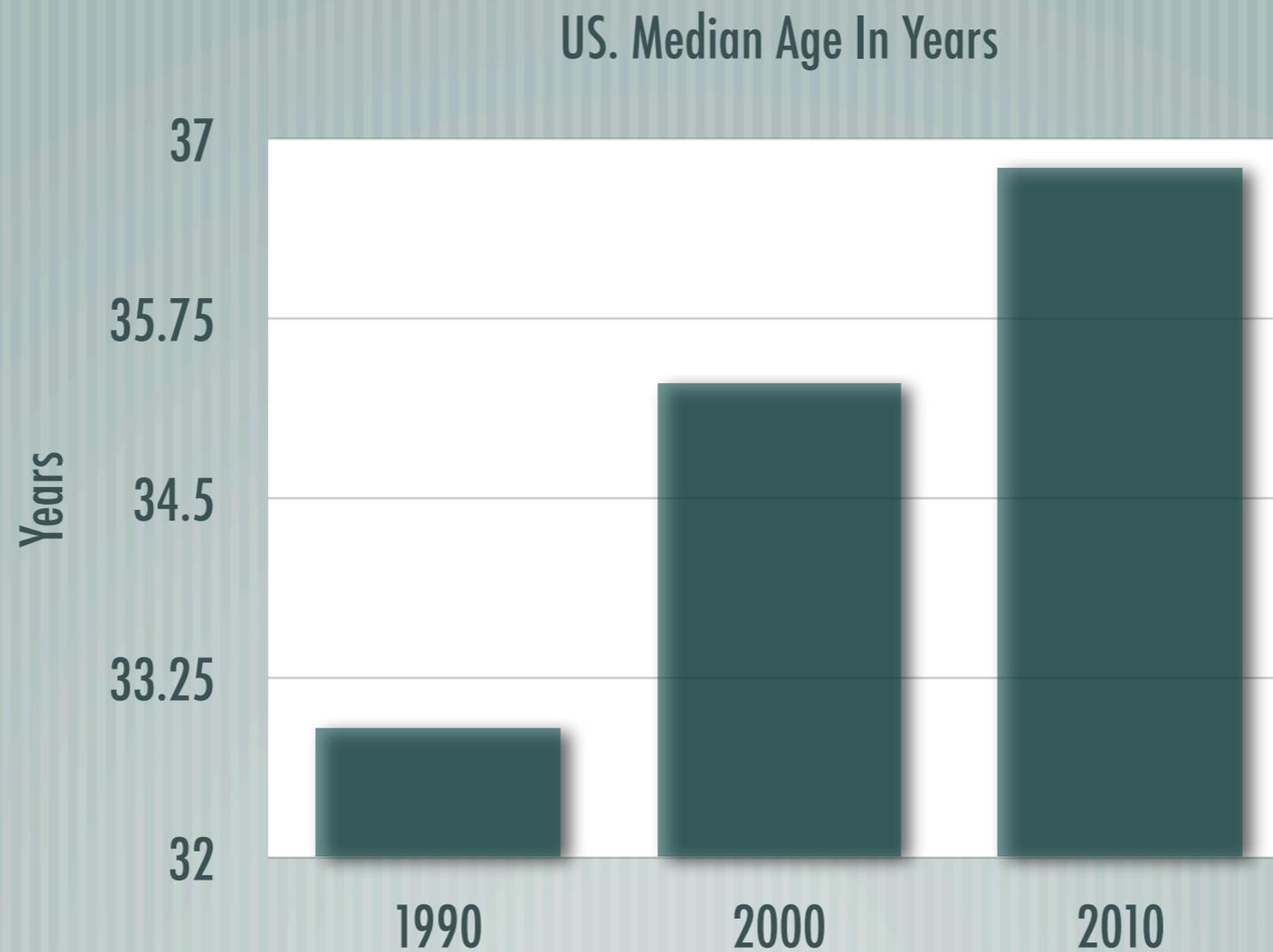
- It's one thing to expand ones margin while dropping production costs, but what about maintaining – let alone expanding – margins at a time of higher costs but weak consumer demand?
- Are retailers up to it?
- Sure, but there will be fallout in the retail sector.

But, Today Retail Demand Is Anemic



Source: US Census Bureau/Emerging Textiles.Com

And Retailers Are Dealing With An Older Buyer

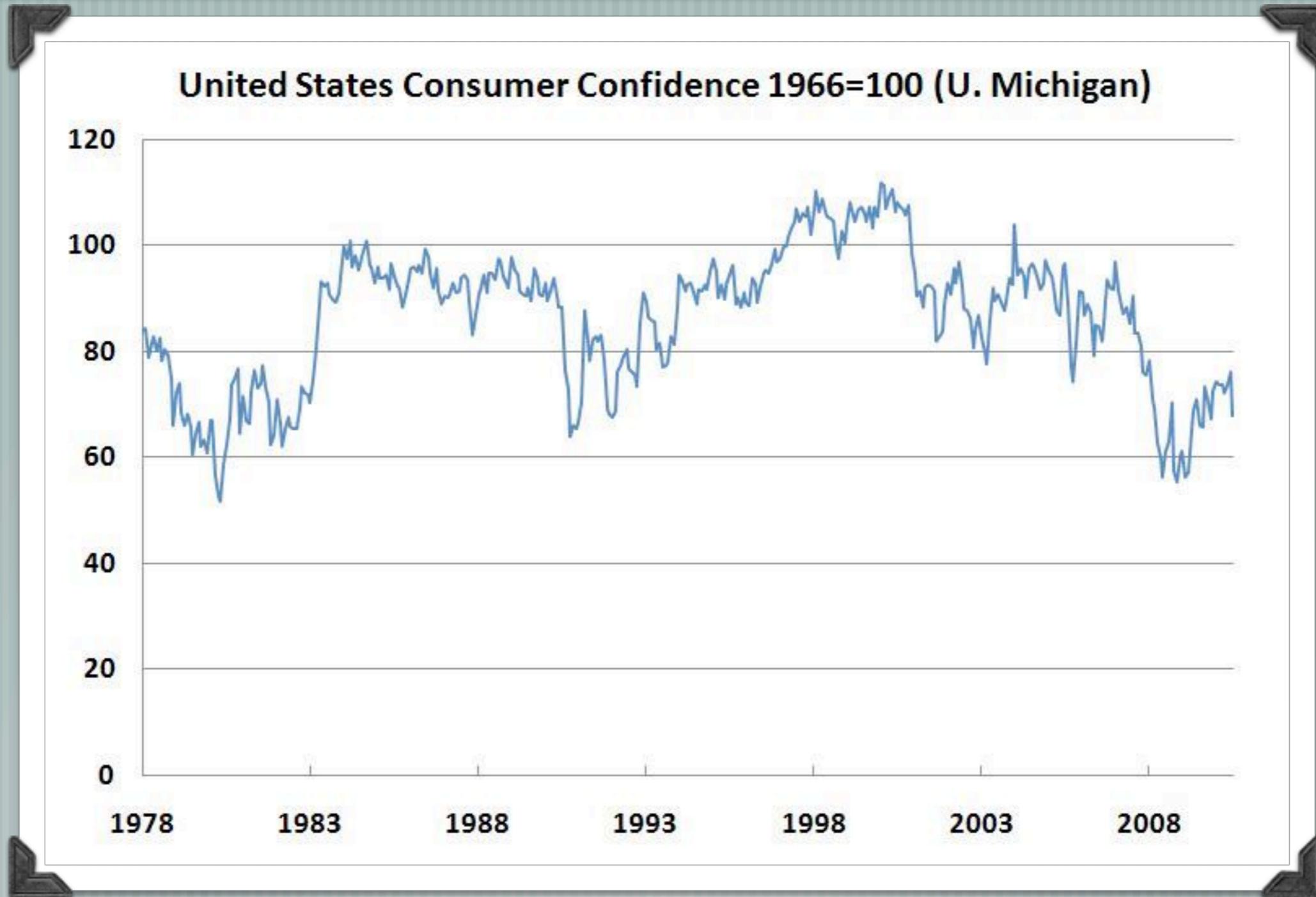


Source: US Census Bureau

A New Business Model May Have To Emerge

- For most retailers, the days of teens rushing out and flipping their wardrobes every season may be over
- Customers may end up buying less products, but they may be willing to pay more for quality
- More of a model adopted in Europe years ago.

And U.S. Consumers Are Pessimistic

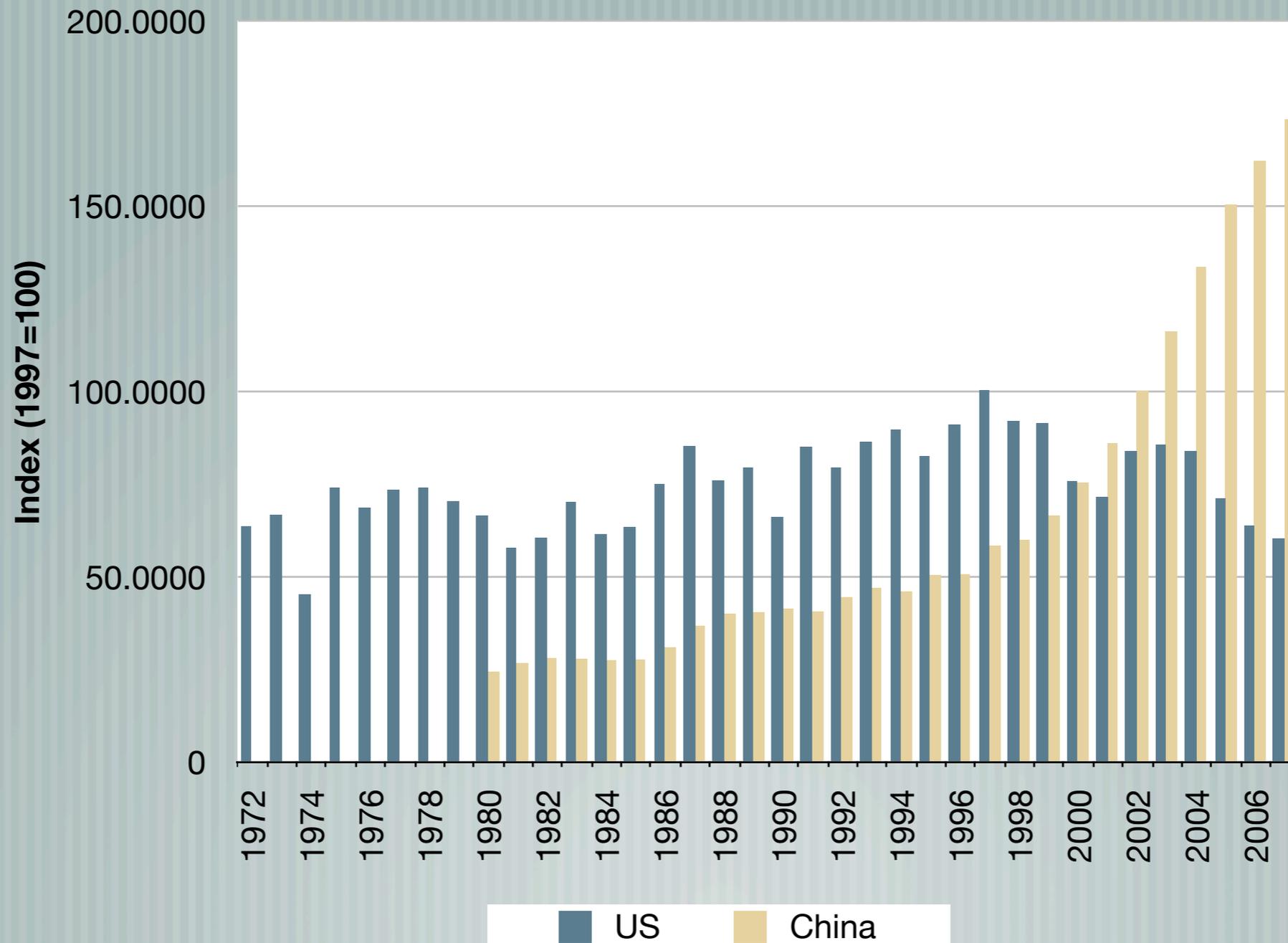


Source: University of Michigan

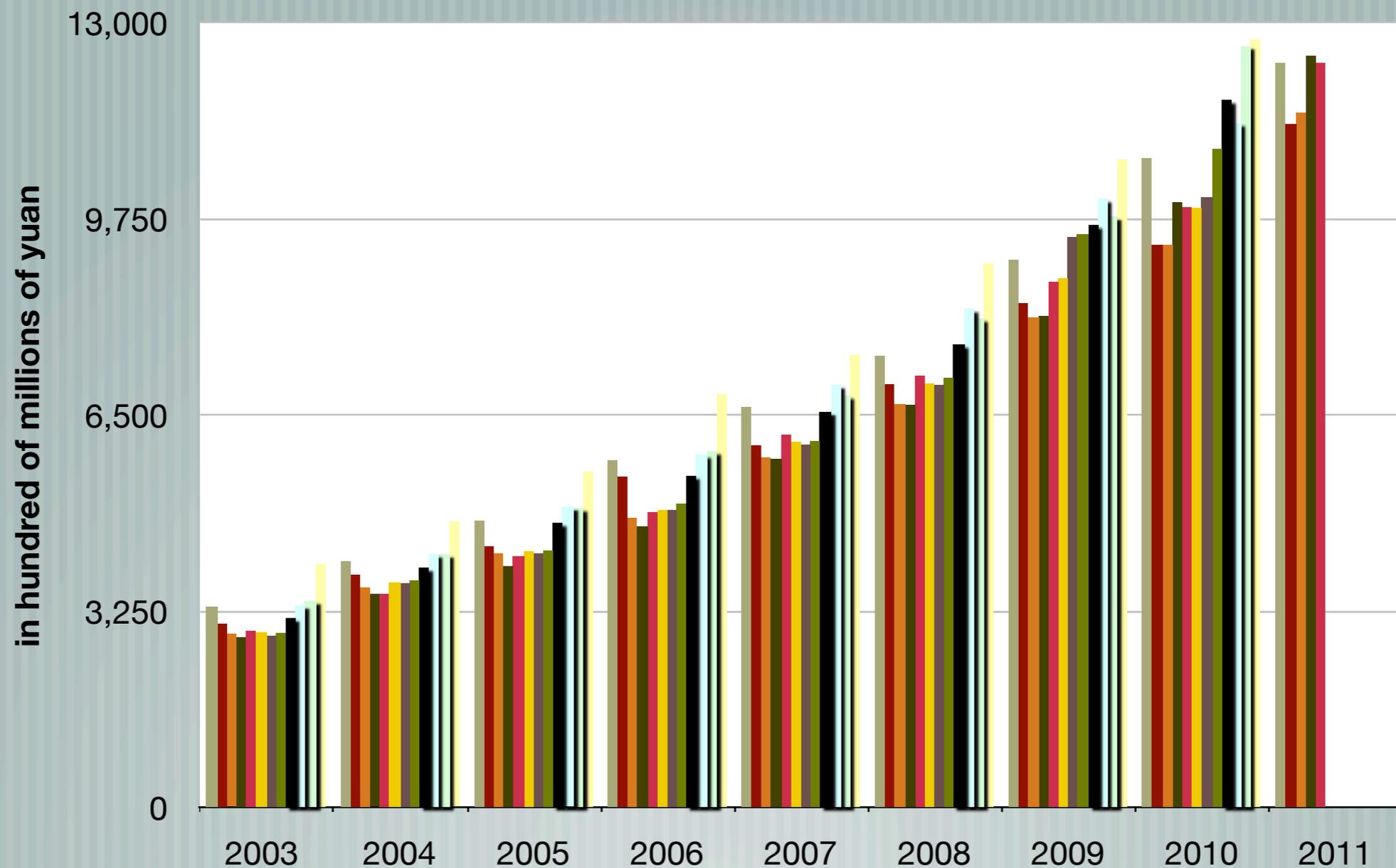
But There Are New Players In The Game ...



China vs. U.S. Textile Production



China's Monthly Retail Sales



Source: CNCotton.Com

In Conclusion

- Global shifts in textile production... driving shifts in cotton purchasing patterns
- Requires close attention to quality, price and varieties
- In the long run, cotton export sales will play an increasingly important role not just in support of the traditional business but as a key component in support of rising domestic textile consumption in China and elsewhere

In Conclusion

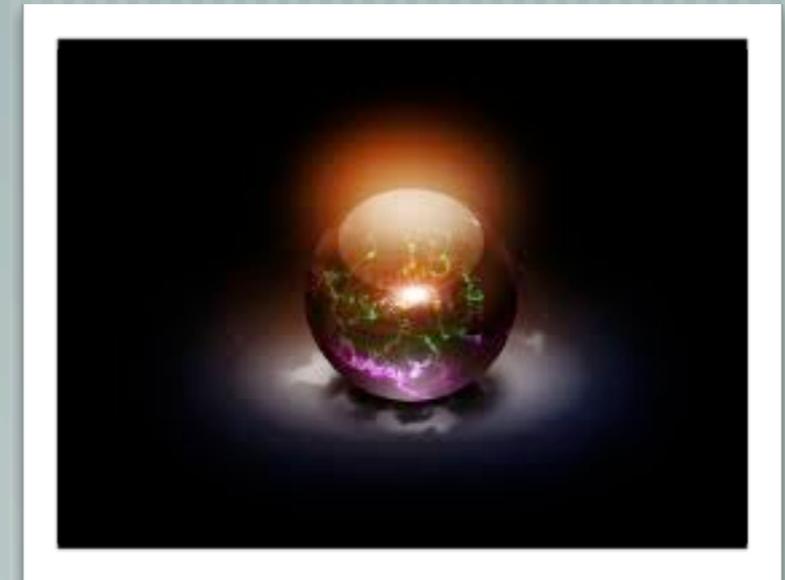
- China's and India's growth will be offset by declining consumption in the developed world
- Further changes to the global textile business will be affected by changing demographics
 - Age
 - Buying power

In Conclusion

- China will only be a textile export giant for a fixed period of time... perhaps 10 years, 15 years?
- In order to maintain market share, suppliers will be forced to evaluate their focus on quality versus quantity
 - Choice of production
 - Future viability at stake

In Conclusion

- Impact of government policy:
How will governments choose to reactive to these changes?
- How will China and India as
“The Consuming Nations” alter
the global textile business?



Want to learn more?

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