Is cotton still king of the fibres?

By Gillian Turco, Rabobank Group

Cotton enjoys a strong position in the textile fibre complex, capturing approximately 40 per cent of the total market in 2001. This is in contrast to the other natural fibre of Australia, wool, which now represents less than five per cent market share and continues to follow a long-term decline in consumption despite strong efforts by various industry groups over the past 10 years (Figure 1).

Cotton may well be king in relation to its world wide production and its consumption in virtually every market. Ultimately, the consumer of cotton is the real king, and changes in consumption trends throughout the value chain will impact on the longevity of the global cotton industry.

Unlike the rapid growth in polyester production and consumption in the 1990s, trends affecting the dynamics of the cotton industry have been slower and more moderate. Over the past 10 years, cotton consumption has remained relatively firm, which is particularly rewarding in the tough economic conditions experienced in recent years — recession, the Asian economic crisis and the high interest rates of the late 1980s.

But cotton consumption in the future will be a function of many factors, including:

- Available supply;
- The quality of supply;
- Use through the textile chain; and,
- Preference at the retail end of the chain.

In Australia's case the opportunity to expand cotton production is heavily constrained by water and suitable land availability. But production in a number of other countries — for example, Turkey, Brazil and potentially India — could increase significantly. This would ultimately change the dynamics of major players in the market.

Can cotton expand production enough to sustain its position of 40 per cent market share over the long term? Seemingly the answer in no.

Even though demand for cotton is forecast to rise by two per cent per annum until 2005, cotton's market share will contract from 40 per cent to 38 per cent.

The litmus test for the cotton industry lies in finding a happy medium with textile manufacturers. There is increasing evidence to suggest that cotton consumption at the retail end of the textile chain is more a function of textile manufacturer preference than as a response to specific consumer demand. That is, the textile manufacturer makes the choice between alternative fabrics, as opposed to the retail consumers sending a message back through the system.

ANNOYING CHARACTERISTICS

Like wool, cotton as a natural fibre has some characteristics which have proven annoying to yarn and fabric makers over time (neps for example), and conquering innate problems like these is key to securing a place for cotton in the textile market future. Certainly, cotton represents more than just a consumer apparel product and this diversity in cotton's demand base is another of the industry's positive attributes.

There are also parallels between wool and cotton in regards to the quality profile of the raw product. Overall, Australian wool is renowned for its quality and, similarly, Australian cotton is highly regarded among mills and textile manufacturers for its overall quality.

Certainly, Australia has fewer competitors in quality cotton as compared to the bulk grade suppliers like China and potentially India. Sustaining the quality profile of the crop is also of paramount importance in securing the position of Australia as a preferred supplier of quality cotton across all grades.

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FIGURE 1: The world textile market

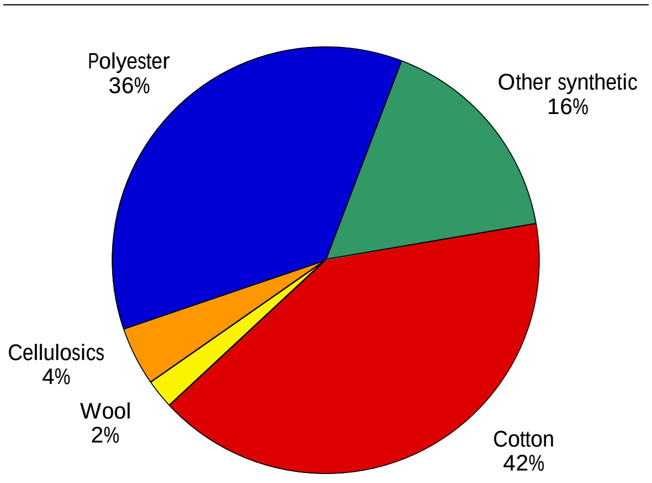


FIGURE 2: GDP growth in developed and developing countries

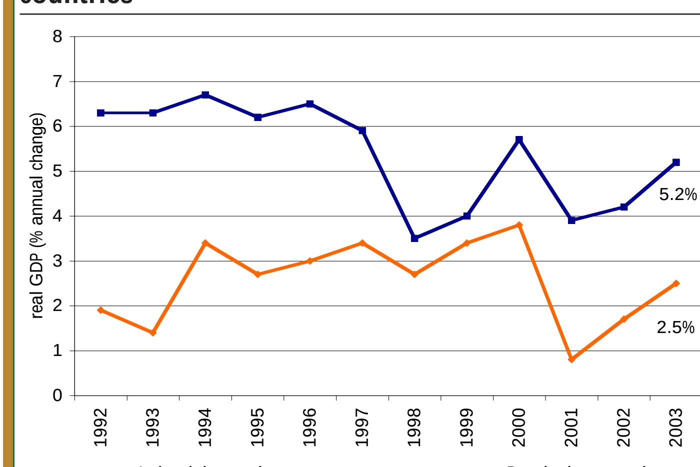


FIGURE 3: The decline in per capita consumption in developing countries

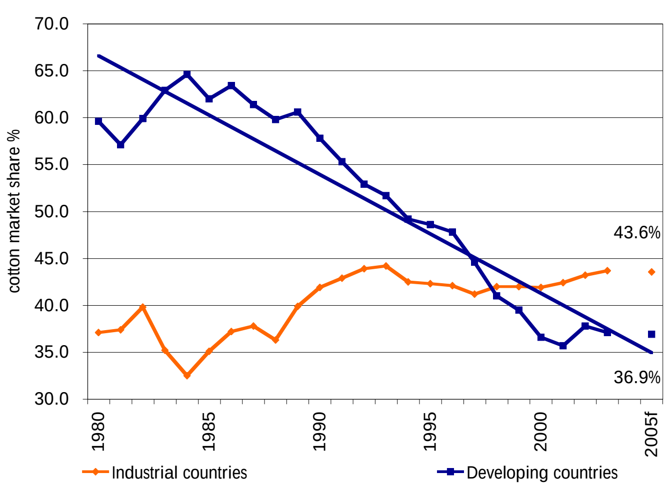
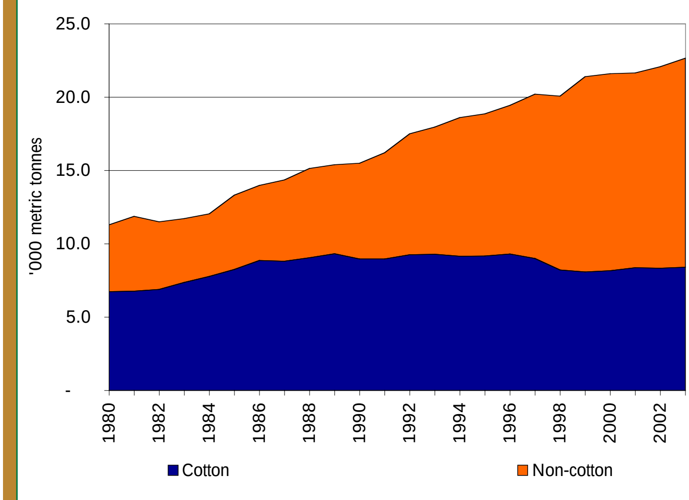


FIGURE 4: Growth of cotton and non-cotton consumption



◁ 44...STILL KING OF THE FIBRES?

At the retail end of the chain there have been vast innovations within the supply chain as retailers face considerable challenges for market share.

The consumer is increasingly discerning about his/her fashion choices and is influenced by a number of variables, including:

- Current fashion trends;
- The inelasticity of demand for clothing products;
- The longevity and functionality of the clothing; and,
- The ease of maintenance of the clothing product.

In addition, intrinsic elements such as labels and image association also a play a role in consumer choice.

Where will consumption grow?

While such factors cannot be ignored, it is just as interesting to examine where the growth in consumption is expected and the role of cotton within those regions.

Consumption of cotton in industrialised nations has flattened out, reflecting a high inelasticity in demand. Similarly, overall growth in demand from industrialised nations is constrained by a relatively low population growth rate. Conversely, when looking for opportunities for consumption, population growth rates combined with expected GDP growth is largest in developing countries (Figure 2). Bringing all the numbers together, it is a concern that per capita consumption of cotton in developing nations is steadily declining (Figure 3).

Considerable effort needs to be put into understanding the dynamics of this decline in cotton consumption in developing nations. By breaking overall consumption into fibre types, it becomes apparent that for developing countries, growth in consumption of non-cotton fibres is outpacing the growth in cotton consumption. At the very least, this static nature of cotton, as compared to non-cotton consumption, should remain a concern for the industry in the future (Figure 4).

INNOVATIONS NEEDED

Innovation needs to be realised throughout the supply chain to affirm cotton's status as a preferred textile product amongst all consumers and this does not necessarily mean a sole focus on the end of the value chain. As the availability and diversity of fabrics available to the textile manu-

facturing segment (and consequently choices to the clothing companies) have grown considerably, the crowned position of power within the cotton complex has moved further away from the producers and now rests closest to the consumers — that is, with the clothing companies.

It remains of paramount importance to the cotton industry to foster strong relationships with the manufacturers and the clothing companies, to ensure the longevity in demand for cotton.

Brand awareness and association with quality are all factors in the clothing decision. Choosing cotton to fulfill the desire for such attributes remains at the discretion of the clothing companies. Without their support for cotton the industry will face considerable challenges in moving forward.

Finally, it is still important to accurately identify the trends at the retail end of the chain — where opportunities exist (in developing markets, such as China) and in realising where consumption trends have stabilised (in mature markets, such as the US).