

Market Penetration: A Cottonseed Crusher's Perspective

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(Allen Ater, current president of the National Cottonseed Products Association, presented the following at the Mississippi Valley Oilseed Processors Association's annual cottonseed clinic held in January 1985 in New Orleans.)

Cottonseed crushers have every right to be called experts on the subject of market penetration. We've been stuck more ways than a porcupine has quills. In the Sixties the magic soybean started to invade our territory. In the past 20 years, U.S. production of the golden bean has increased threefold, not to mention mammoth increases in Brazil and Argentina during the past five to ten years. Cottonseed crushing in the U.S. has declined by one-third in the same interval. Urea became popular about the same time as soybeans and now displaces about three million tons of natural protein meal per year. Next it was palm oil, when the U.S. government made easy credit available to encourage Malaysia to plant millions of palm trees.

Then came rapeseed. It wasn't so bad when Canada was the only major producer, but then the EEC got into the act by paying subsidies up to \$175 per ton. After that it was sunflower in North Dakota, Argentina and now Spain. Finally came China with all three: rapeseed, sunflower and cottonseed, changing that market from a customer to a competitor. Now it's wholesale feeding by dairies, which has the double effect of taking away both our raw material supply and an outlet for protein.

Not only that, but we've been beset by foreign import tariffs, subsidized freight rates, blatant export subsidies, tax credits and a host of imaginative non-tariff barriers that have curtailed or eliminated many of our best markets. At home and abroad there have been millions spent on product promotion programs by groups such as the American Soybean Association, the Malaysian palm oil producers and various other government and private organizations anxious to further their own interests.

Talk about market penetration? We've had the course.

As you can see, the cottonseed crushing industry faces a number of major challenges when devising strategies to counter these trends and tactics. Some of the problems are common to crushers of other oilseeds as well. This is due largely to the unique characteristics of supply and demand for oilseeds and oilseed products.

A substantial percentage of world oilseed production bears little direct relation to the demand for products in a given season. Cottonseed is the most obvious example, since the supply depends largely on the economics of cotton production. Government cotton programs are always devised to accommodate the cotton market. No amount of cajoling could convince government planners or cotton producers to make planting decisions based on seed prices, and for good reason since seed has such low relative value.

There are other examples. Corn oil and corn gluten feed are byproducts of starch and high fructose sweeteners. Production has been trending upward in recent years as fructose usage expands, not at all to satisfy oil and meal requirements. The fact that oil and meal demand also have been expanding somewhat with population growth is almost coincidental.

Peanut crushings depend on the quality of nuts produced in a given season, with crushing stock merely the leftovers from the edible trade. Lard and tallow are byproducts of the meat industry and are not considered in animal breeding decisions. Wheat middlings, rice mill feed, brewers grains and other middle proteins are all byproducts that compete directly with cottonseed meal. The production of palm and coconut oils depends not on current demand but on planting decisions made years earlier, when the trees were planted. The oil is sometimes fed into the market almost without regard to price.

Even the market-leading soybean is grown in rotation with corn and other crops, so the acreage response to price changes is not always as great as would be expected from price alone. Sunflower and rapeseed have to compete with wheat for acreage, so their production often depends as much on wheat prices and demand as on the oilseed markets. All of these side influences are at work before we even get to the subjects of weather and yields per acre.

The point of all this is that the potential supply of fungible oilseed products in a given year is related only partly to demand. This leads to supply shortages, surpluses, wide price swings and other uncertainties that tend to confuse and frustrate consumers. Price, of course, is the great equalizer, as any student of high school economics well knows. So it is safe to say that the first principle of market penetration is to know and understand the various interactions of supply and demand, and to price the product accordingly. One thing is certain: there is virtually unlimited demand for all the products of all oilseeds, at a price. The trick becomes one of price discovery after the elements affecting prices in a given season have been assessed.

Since we (as crushers) cannot control the supply, and the general price level is dictated by macro-economics, the best and most obvious approaches are to maintain the markets we have and work to develop new ones. The object is not to sell too cheap, but neither is it wise to price our products out of the market. We know from long and bitter experience that product markets are hard to regain once lost, if indeed they can be regained at all.

A good part of the National Cottonseed Products Association's foreign market activity is geared to keeping the few export markets we have left. We think it is important to provide foreign customers with our best estimates of the long-term supply potential for cottonseed products. The matters of supply continuity and uniform quality are of much concern to foreign buyers who depend heavily on imports as a source of food, and our views and assurances

Viewpoint

generally have been warmly received and appreciated. We also provide technical assistance when requested, and always stress our industry's dedication to manufacturing high quality products.

The development of new markets is more difficult and infinitely slower. NCPA has participated in local and foreign advertising and promotion activities continuously through the years. This is an ongoing function that has several facets and is an essential segment of the market penetration effort. We speak of our customers as oil refiners, feed mixers, bleachers, etc., but in reality the faces behind these generic names are constantly changing, making it necessary to repeat the message time and again. Video tapes on cattle feeding and cottonseed oil for spray are examples of successful techniques currently in use. These efforts usually do not produce measurable results, and there is no way to know how much good they do. Rest assured, however, that other trade groups are employing the same tactics. We are constantly hearing someone brag about "soybean meal this" and "sunflower oil that" and "wholeseed something else," so we need to counterattack in self-defense, if for no other reason. Equally important, however, is the need to project our products as high quality, useful commodities to the broadest audience possible. After all, cottonseed oil and linters are generally considered equal to or superior to the products they compete with. Cottonseed meal is more limited in application, but has good regional acceptance among consumers. We must continually make sure that present and potential customers are fully aware of the strong points of cottonseed products.

We are well aware of the benefits of research leading to new markets, so I will not dwell on the subject. The potential of oil for spray is a current example, and there seems to be continuing optimism about edible protein as a growth market. There are other uses with some prospect of long range potential in a small way, but let's face it, we're in the business of producing commodities that are used mainly for the same purpose they were 50, even 100 years ago. The new uses under development will add to the basic demand, of course, and there will be others in the future, but what we really need is to develop applications that can make cottonseed products command premiums in the mass markets of edible oil and animal feed. This is not an easy task,

but research is continuing in the fields of new product applications as well as plant breeding, processing techniques, aflatoxin control and others. Several research projects directed at the nutritional aspects of feeding wholeseed vs. meal also are under way in an attempt to better understand the causative factors. The availability of synthetic amino acids in commercial quantities is another development that is changing the way feed mixers look at various protein sources in their rations. This could enhance the demand for cottonseed meal in some cases. There can be no doubt that a better understanding of these relationships will be significant in guiding future marketing efforts.

The subject of quality control may be the most important factor in market penetration. It is also one aspect that most of us can influence directly. Refiners, feed manufacturers, bleachers, food manufacturers and others who use oilseed products are acutely aware of quality in the end-products they manufacture. Low quality or, almost as bad, inconsistent quality in oil, meal and linters causes our customers many problems. This naturally increases their cost and is reflected either in low prices or market share, sometimes both. Industrial users are much more likely to incorporate a raw material of dependable quality into their formulations. Poor quality causes them to seek alternative supplies. The headaches caused by inconsistent supply are bad enough, but when you add quality problems, it is easy to see why some of our better markets have been lost.

Some aspects of quality are beyond control, of course, such as the high FFA problem in the Valley this year. Yet, materials handling, product storage and process control are all within the province of oil operators and contribute to the integrity of our industry.

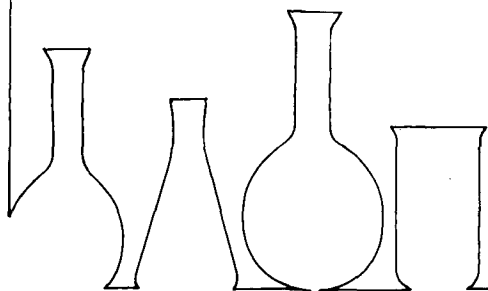
The points I have mentioned are: export development, advertising and promotion, research, new applications and quality control. All contribute to the maintenance and expansion of market share.

If you were expecting to learn of bold new ways to open up markets, I'm sorry to disappoint you. In reality, it's a slow process that includes all the points I've discussed and more. A lot of hard work is involved with frustration and setbacks along the way. The reward may be mere maintenance of the status quo, but the penalty for not doing these things is ultimate extinction.

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