

Cotton crunch raises prices

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Surf Cowboy CEO Jeff Shafer, whose company manufactures Agave Denim jeans, is one of several apparel manufacturers planning to raise prices because the cost of cotton has risen more than 150 percent the past year.

Dramatic increases in cotton costs are forcing apparel makers to raise prices. It's an issue in which no company — from giants like Nike Inc. and Columbia Sportswear Co. to smaller players like Ridgefield, Wash.-based Surf Cowboy Inc. — is immune.

“For us, it's just kind of a battle. We go to buy the same yard we've been buying the last eight years and all of a sudden it's tripled in price.” said Jeff Shafer, CEO of Surf Cowboy, a maker of high-end jeans and knitwear under the brand Agave Denim. “The consumer doesn't have any appetite for price increases.” Unfortunately, consumers will get them.

A year ago, cotton prices were hovering around 80 cents per pound. As of Tuesday, the price of cotton deliveries had risen to \$2.01 per pound — a more than 150 percent increase.

Such an unusual upswing is the result of a confluence of circumstances led by a string of natural disasters or bad weather in India, China and Pakistan as well as some bad luck in the buying practices of worldwide mills.

At Agave, which produces a high-end product, a \$170 pair of jeans will likely now cost \$180 while a knit shirt goes from \$85 to \$95.

Both Nike and Columbia Sportswear — which are based in Washington County — had been managing increasing commodity costs through selective, item-by-item price increases.

But in the last month, both companies said those increases will be more widespread.

Nike spokeswoman Erin Patterson said the company will begin implementing so-called “surgical” price increases on select styles in the first half of 2012, with more significant increases across a broader range of products expected in the second half of that year.

Ron Parham, Columbia’s director of investor relations, said the company’s fall 2011 lineup will be the first to show limited price increases.

“As we look at the landscape out there, the cost increases are affecting pretty much every style we’re developing for the spring 2012 season,” he said.

For bigger players like Columbia, cotton is but one of several commodities in which rising prices are threatening margins.

Oil and transportation costs are also on the rise. That means for Columbia, a heavy user of oil-based synthetic fibers, and Nike, which has increased its use of more expensive air freight to meet surging demand, costs are climbing on nearly every front.

“Really for the first time in what some say is 20 years, and I say 40 years, in this industry, ever since (Nike founder Phil Knight) and the others first pioneered the idea of outsourcing manufacturing of athletic footwear,

you've got all of the various input components in an inflationary scenario," Parham said. "It's not just cotton."

But it's the wild fluctuations of cotton prices that are perhaps most emblematic of the problems facing the apparel industry.

"This was one of those strange years," said Mike Stevens, a Mandeville, La.-based independent commodities trading analyst who specializes in cotton markets.

A series of disasters struck the global cotton supply starting last summer, including a series of floods in Pakistan and Australia and unseasonably cold weather in China and India.

Then, in November, the United States Department of Agriculture — which gauges worldwide demand — made severe adjustments to its projections for cotton production from China, the world's biggest producer and importer of cotton, after learning that domestic supplies were shrinking, Stevens said.

Meanwhile, mills had become comfortable ordering cotton "on call." That means instead of buying it at a fixed rate, they make the order and price it later in the hopes of catching the market on a downswing. Stevens said mills had benefited greatly from the technique, particularly when prices were known to regularly fluctuated between 70 and 90 cents per pound.

Mills, he said, would traditionally carry a backlog of 5 million bales with unfixed prices. But at the turn of the year, with prices skyrocketing, mills globally had 10 million bales purchased in which the prices were not set. "That's when the market turned around and went parabolic in January," Stevens said. "These mills painted themselves into a corner."

Columbia normally would have set prices for its fall 2011 line last October, Parham said. But on certain styles, negotiations continued all the way through January.

"The underlying fabric costs at factories kept going up," Parham said.

A few companies buck trend

The situation isn't catastrophic for everyone. Unlike most apparel brands, 98 percent of Agave products are produced in the U.S., principally in the Los Angeles region, which generally would put it at a cost-disadvantage to apparel makers that outsource manufacturing to lower-cost regions.

With cotton prices on the rise, Shafer looked into moving some production overseas to ease costs. But he decided against it. With higher commodity prices, making denim in China and knitwear in Peru was around 90 percent of what it cost to make the same product in L.A. "To some extent, having the cost of cotton and imports from China and India go up makes the value of my product look better, for my customers for sure," Shafer said.

It's a different sort of benefit at Portland-based Naturally Advanced Technologies Inc. The company, led by former Adidas executive Ken Barker, is working to commercialize Crailar, a technology that removes the binding agents from rough fibers such as flax and hemp to make it more like cotton.

Though its major selling point is built around performance and sustainability, Barker said the initial idea was to make a fabric that could be an alternative to higher-priced organic cotton. But rising cotton prices have changed that equation.

"Current cotton prices do now afford us the unique opportunity of launching Crailar as a complement to cotton, which is the holy grail," said Barker, whose company last month reached a 10-year agreement to supply its flax-based fiber to Hanesbrands Inc.

Columbia's Parham said a lot can be done in the product development stage to ensure that the company is using the most efficient fabrics.

With commodity prices continually rising, it's not likely the consumer price increases will be a single-season phenomenon.

"As long as all those materials show inflationary trends, we're likely to see that affect even more so in seasons going forward," Parham said.