Timing was right to sell cotton business

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William ‘Billy’ Dunavant J r. is willing to make an admission now that just a few years ago would have seemed unthinkable: His tolerance for risk just ain’t what it used to be.

“Age mellowed my risk level,” says Dunavant, 78, who almost 50 years led the cotton merchandising business he inherited from his father and grew it to become the world’s largest cotton trader.

In April this year, after nearly 18 months of negotiations, the chairman of Dunavant Enterprises Inc. finalized the sale of the global cotton business to long-time competitor Allenberg Cotton Co.

Dunavant had stepped down as CEO in 2005 and relinquished daily operations, saying he wasn’t very active in the leadership “unless there were major decisions.”

Selling to Allenberg and parent company Louis Dreyfus Corp. was one of them.

“That was a big, big decision,” he says without a hint of regret. “The future looked fluid and volatile and I didn’t want myself and my kids to take additional risk.”

William B. Dunavant III will now operate a very different company from the one his father built. The company is now taking its expertise and connections in cotton and transportation and molding it into the new Dunavant Global Logistics Group. The other two divisions, focused on real estate and development and investments, will be grouped together to form Dunavant Investments.

The senior Dunavant’s attitude today is very different from the posture he took as a man in his 30s and 40s. He got the top leadership position in 1961, just a year after the company changed its name to W.B. Dunavant & Co. and only five after the 24-year-old Dunavant became partner.

“I took huge risks as I grew the company,” he says.

Then times changed: the cotton and commodities markets changed, the world shrunk, information was moving faster and surviving in cotton meant more than having good instincts. By 2007, when speculators were driving the price of cotton to historic highs, it meant the company with the most money won, Dunavant says.

“You’ve got to have huge, deep pockets and Dreyfus evidently had deep pockets so they will be successful,” he says. “I don’t see the little guys in cotton surviving.”

Charlie McVean, a friend of Dunavant’s who is chairman and CEO of McVean Trading & Investments, a global trader of beef, corn and small amount of cotton, conurs.

“The underlying problem is enormous excess liquidity in the global financial markets,” McVean says. “With excess liquidity and super-low interest rates, more and more huge pools of capital speculate in the markets.”

That speculation causes markets to deviate in major ways from the basic fundamentals, McVean says. That's what the Dunavants saw, too. And when they saw a way out, they took it, he says.

The outside world was shocked when news of a pending Dunavant/Allenberg deal first broke in August 2009; even some intimately familiar with the company were stunned.

Rick Greene, former CFO of Delta & Pine Land Co., and now a partner at Memphis-based Dobbs Equity Partners, worked with the Dunavants for 16 years — as a tax partner at Arthur Anderson advising the company from 1991-1997, and later at Delta & Pine Land in business development as Delta’s CFO.

Scott, Miss.-based Delta & Pine, the leading supplier of cotton seed, was purchased by St. Louis-based Monsanto in 2006.

Greene left the company in 2008. Since he was out of the industry, he didn’t see the sale of Dunavant to Allenberg coming.

“I was shocked because they were the largest,” he says. “To some degree, it would be like Coca-Cola selling out to Pepsi.”
Not exactly. By the time August 2008 rolled around, Allenberg was the Coca-Cola of Memphis cotton companies.

Dunavant perennially had ranked first on Memphis Business Journal’s list of 100 Largest Private Companies. The list is based on gross revenue and Allenberg surpassed Dunavant for the first time in 2006. Allenberg posted $1.8 billion that year; Dunavant reported $1.7 billion. Dunavant posted $1.35 billion a year later while Allenberg increased revenue nearly 10 percent to $1.98 billion.

Allenberg CEO Joseph Nicosia declined to provide many details about the Dunavant acquisition. Traveling overseas this past week, Nicosia at first said he would try to answer questions by e-mail but later declined, offering short praise for the Dunavants’ new logistics venture.

“We do wish them well in their new business and I am confident that they will succeed,” he wrote.

Many of Dunavant’s contemporaries, which employed people who served in leadership positions with Dunavant at places such as the American Cotton Shippers Association, filed for bankruptcy the last few years. They didn’t receive, or chose not to entertain, offers from acquirers.

“People paid us a lot of money,” Dunavant says of his company’s sale, declining to name the price. But, as usual, his timing seemed to be perfect.

“We picked the right time and found some who liked us and knew us well,” he says. “They wanted to get bigger and we wanted out. It was a natural mix for us.”

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