

14. Introduction to Wool Marketing

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Learning objectives

Upon completion of this topic you should be able to:

- Describe the elements of the marketing mix;
- Outline the features of Porter's supply chain model;
- Describe the stimulus-organism-response model;
- Describe the features of the product life cycle;
- Describe the elements of Porter's industry competition model;
- Discuss how fashion trends affect wool demand; and
- Describe the major constraints to marketing in other countries.

The aim of this section is to introduce readers to the principles of marketing and describe how various marketing techniques can be applied to the wool industry.

Key terms and concepts

This topic introduces the four P's of the "marketing mix" which are often discussed in relation to wool market development. Traditionally marketers were focused on the consumer but Porter developed several models that aided in understanding supply chains and the competitive forces that participants in each sector of the chain face. The concept of the value chain has followed from his early research in supply chains. The determinants of exchange show the complexity of factors that are involved in a transaction. Models such as the stimulus-organism-response model have been created to better understand how consumers think and react to marketing strategies. Perceptual maps have been used to compare products in markets and lifecycle analyses show how products perform overtime. A market success model can be used to categorising products into four classes to determine which steps need to be taken to further develop markets. A discussion of how push and pull marketing has developed the fashion industry provides some guidance on how the industry needs to change to adapt to consumer demand for more "natural" products. The final section includes steps that marketers need to be aware of when operating in international markets.

Introduction

The history of marketing wool in Australia is covered well in many publications. White (1981) describes the wool industry in the early 20th Century and Richardson (2002) provides a detailed coverage of the period from 1960 to 2000. Watson (1990) aptly describes the structures and policies of the two reserve price schemes for wool.

The wool marketing literature explains the periods of the two world wars when wool was compulsorily acquired by the Commonwealth Government and growers were paid a fixed price per pound. In contrast, during the Korean War, wool was purchased from producers via the auction system and prices increased to record levels. During the sixties wool prices were low and this led to the creation of the first of the reserve price schemes which were introduced in the early 1970's. Wool prices rose again in the five-year period to 1990; however, the Scheme's optimistic price setting, in combination with a reduction in market demand, led to its collapse in 1991. In the decade after the last Scheme's demise, the wool stockpile was sold, and the market declined in both volume and returns (Richardson 2002).

There are several reasons for the decline in wool returns. Producers of other fibres have been able to imitate some of the properties of wool (Shoebidge 2005) and other fibres have become relatively less expensive to produce (NCWSBA 2010). Various groups have politicised sheep production practices and some of these groups have actively promoted the use of synthetic fibres in preference to natural fibres (Gadd 2010). Wool production has declined, but prices have remained relatively static during the past decade, which indicates that consumer demand has been very flat. Producers have also been able to earn higher incomes from prime lambs and beef in grazing regions, and from cropping in the sheep-wheat zone, which has reduced their investments in sheep and wool production. Wool production is relatively labour intensive and labour has migrated away to the more lucrative mining industry. Reduced incomes and rising costs have therefore exacerbated the “cost price squeeze” driving marginal wool producers into other farm enterprises.

[The “cost price squeeze” occurs where the rate of increase in input costs rises faster than the rate in increase in output returns. The farmer’s margin decreases and the only way to remain viable is to adopt technology that increases outputs.]

There have been calls by farmers and the wool processing industry to address the issue of declining real incomes from wool and one mechanism to do this is through marketing (Canning 2005, Bardon 2006 and McConchie 2009).

14.1 What is marketing?

Marketing is the practice of identifying and promoting the attributes of products for the benefit of sellers and buyers in the exchange of goods. The practice of marketing has progressed from its traditional focus on the retailer-consumer interface to incorporating all aspects of production systems and supply chains to deliver goods to consumers. Modern marketing practices span the entire supply process.

Marketing practices during the 1980’s were focused on the “**marketing mix**” which included the four “P’s” that represent product, place, promotion and price (Lilien, Kotler, Moorthy, 1992). The marketing mix was the basic requirement of product marketing management. The other major element in marketing was an analysis of strengths, weaknesses, opportunities and threats (**SWOT**). Companies would conduct audits of their businesses using a SWOT analysis to determine how the business performed over the four components of the marketing mix. The four P’s are a useful starting place for any market analysis. Characteristics of the four P’s were meant to provide a general framework to ensure that all segments of the marketing strategy were analysed. The 4 P’s are not unique to one product or process, therefore the characteristics below are general rather than specific.

Product related characteristics include quality, brands, scale, function and performance.

Place related characteristics refer to retail outlets (which could include a physical or cyber store), network locations, distribution centres, proximity to markets and competitors or place of production of any of the input products. Wine and cheese have strong regional product associations. Country of origin labelling has become an important issue in product marketing to assist domestic producers and to restrict imported products.

Promotion related characteristics include the product image, market segments, demographics, medium of promotion, trade and fashion shows, provision of technical specifications or samples, competitor product analysis and value propositions.

Price related characteristics include value for money, sales discounts, taxes, commissions, buyer surcharges, volume premiums, and postage and handling fees.

The industry’s focus on the “marketing mix” has been very important to retailers; however, in marketing agricultural commodities the focus has shifted to management of the entire product supply chain from sheep’s back to the customer.

The term “**supply chain**” refers to the pathway that the product takes from its original source to market and includes production, processing, management and marketing steps along the way. The chain process typically relates to sequential physical processes such as shearing, transporting, scouring, fibre blending, combing, weaving, sewing, packaging, ironing and display. However service processes such as certification, grading, auctions, risk management, marketing and retailing are also included within supply chain management. On top of this are legal, financial and government influences over trade between supply chain sectors.

14.2 Porter’s supply chain model

Porter (1985) developed an organisational framework around the supply chain for products and he stated that all areas of an organisation’s or industry’s performance need to be optimised to achieve a competitive advantage. Porter’s diagram below shows the basic elements of his framework. The bottom part of the diagram shows the typical manufacturing processes of inbound logistics, operations, outbound logistics, marketing and sales, and services. Porter identified four areas in which companies could develop and maintain an advantage over their competitors and these are shown at the top of the figure. Firm infrastructure, human resources, technology development and procurement need to work across the entire supply chain and the linkages between these management tasks over the five manufacturing processes should be seamless.

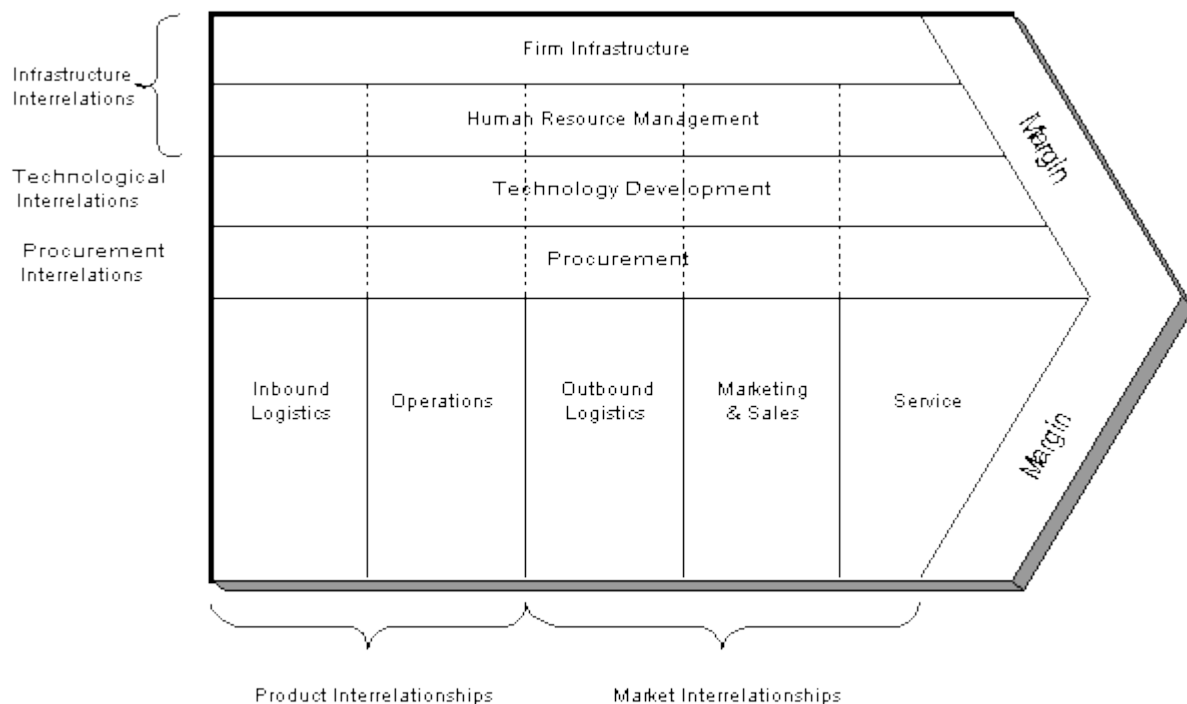


Figure 14. 1 Porter’s Supply chain model Source: Porter (1985)

The boundaries between the four management tasks are more flexible in today's use of Porter's framework. Consider the case where some employees work from their home offices. What sections of the business would this affect? The employee would save commuting time, costs of travel (trains, buses, fuel) and the company would save on office requirements and parking spaces. Alternatively, the computer interface between the home office and the work site would need to be a higher grade and may require more technological assistance and monitoring. As technology changes so does the shape of the business model with different sections becoming more prominent. Porter's supply chain model has evolved to incorporate "value" which flows from the production of goods and services within and across business units.

14.3 Value chain

The term "**value chain**" is used to describe features of a product or service that add value to any section or link of a supply chain and it has been used particularly to identify value to the consumer. From a consumer perspective, the value chain may include the following requirements: that the product is sourced from a certified organic farm; that it has been produced with animal friendly practices; that it has been scoured using only natural degreasing agents; or it is a product that can be recycled.

Intermediate processors might add value by forming alliances with their upstream (suppliers) or downstream (clients) partners to reduce risks by managing the supply system more effectively or by adopting similar quality standards to their partners.

Different consumers and processors will place their own demands on products and there are a number of organisations willing to validate products that are directed to select groups of consumers. For instance, there are at least twelve "organic" organisations that set standards for producers of organic food in Australia.

Value chains are complex in the fibre industry as there are many participants who further process or blend ingredients to add value to the product as it progresses through the supply chain. Additional services are also provided between each of the intermediate stages by private and government agencies. Road, rail and sea transport hubs are obvious examples where both types of agencies interact and they may also add value.

Gereffi and Memedovic (2003) have itemised the elements of natural and synthetic fibre value chains for the US apparel market. In Table 1 below Gereffi and Memedovic (2003) show links in the value chains of natural and synthetic fibres at the component network stage where these fibres are sometimes blended. There are also links from the synthetic garment contractors supplying products into the brand-name apparel companies and further links between overseas buying offices and the many types of retail outlets.

It is important to note that a lot of synthetic products are sold via higher quality retail chains and outlets, but very few natural products are sold via the mass manufacturing and mass retail outlets. Value chains will therefore be different for each participant in a supply chain and two firms in a similar market may place a different value weight on the functions within their value chains.

Table 14. 1 The value chain for the US apparel industry

Raw material	Textile companies	Apparel manufacturers	All outlets	Retail outlets
Natural fibres	Yarn spinning Fabric weaving Knitting Finishing	Garment factories, design, cutting, sewing, buttoning, ironing	Brand named apparel companies	Department stores Speciality stores Mail orders
Synthetic fibres	Petro chemical Synthetic fibres	Garment contractors	Overseas buying office Trading companies	Mass merchandise chains Discount chains Off-price Factory outlet
Raw material networks	Component networks	Production networks	Import/export networks	Marketing networks

Source: Adapted from Appelbaum and Gereffi (1994) in Gereffi, and Memedovic, (2003) figure 1 on page 7.

The value chain for a fashion retailer has been described by Pich, Van der Heyden, and Harle, (2002) in Ramgopal (2008). The functions of the value chain are described by Table 2.

Table 14. 2 Value chain elements for a fashion retailer

Function	Function	Function
Raw material buying terms	Sewing cooperatives	Ticketing
Raw material finishing	Washing	Central warehouse
Designers	Ironing	Logistics
Test shops	Plying	Stores
Cutting	Packaging	Consumers

Source: Pich, M., Van der Heyden, L and Harle, N. (2002) in Ramgopal (2008), adapted from Exhibit III.

The sources of value that are shown by the table above indicate each of the points which could be examined to increase value to the retail firm. Once these points are identified it is then up to management to examine each function in detail to work out how the function could be done better or at a lower cost. Lower cost does not necessarily relate to increased value.

14.4 Market processes

Marketers have an insatiable desire to know how consumers buy and use products and this has initiated many areas of research including psychometrics, marketing psychology and sensory analysis. In addition to consumers responding to various products on offer, there are technicians and designers working on innovations to include in fabrics and clothing such as heat and cold sensors, nano particles that release cleaning agents, and fibre coatings to make materials resistant to pilling, insect attack and to reduce prickle.

Products and consumer preferences are constantly evolving and these changes are driven by the fashion or design industry. This industry plays an important role in demonstrating how new technologies can change the way that clothing appears and feels. The design industry relies on being able to change preferences for clothing products, thereby creating demand for new products in each season, and this in turn drives demand for new fabrics and fibres. This is good if the latest fashions include products made from wool. The rate of fashion turn over, however, does not favour clothing that is composed of high quality durable fibres such as wool, as a particular garment may only be in fashion for six to twelve months, and consumers are no longer prepared to pay higher prices for product durability. Consumers have revealed a preference for light weight fabrics that are easy to care for, and that are made of natural products (AWI 2010).

An important question in the industry is to work out the most cost effective way to deliver a product to the market that will sustain and build demand. One option is to use the limited marketing funds available to highlight the characteristics of wool and wool blends that are currently demanded by consumers and to do this through supply chains or channels that consistently promote quality woollen garments. This approach would reward members of the supply chain who regularly use wool and promote it via high quality outlets. Consumers who often buy quality articles would use the retailer's reputation to assure the credence of the product being sold. An example of a credence attribute is the guarantee "made of 100 per cent pure new wool".

A second option is to build a generic campaign that revitalises interest in wool by promoting its attributes to demographic groups who are not aware of the attributes of wool. This option would require sales staff to take a more proactive role in answering enquiries from new clients. This approach requires extensive point of sale information, either on the product label or delivered via retail staff.

In order for sellers of goods to maximise their returns, and for consumers to be able to find and buy products that satisfy their needs and budgets, marketers need to optimise the four P's. Marketers therefore are required to have a sound knowledge of products, production processes, supply chains, wholesale and retail services, and most importantly a good understanding of how consumers access, evaluate, buy, use and recycle products.

14.5 Consumers

It is important to understand the supply chain for wool and how information is transferred along the chain. If we start with consumers we need to know why they buy products that contain wool. There are many marketing models that are used to represent consumer behaviour in purchasing decisions. The stimulus-response model was an early example.

14.5.1 Stimulus-response model

The stimulus-response model was very simple and showed the primary elements of a purchase decision making process. The decision sequence was:

Advertising – Awareness – Desire - Purchase intent - Sales.

In this model some form of advertising would reach a consumer. This may include television, magazine, newsprint, radio or word of mouth advertising. Consumers would then become aware that a product was available and would develop an interest in some of the product's features. If the features of the product met a consumer's needs or wants then this would trigger a desire to buy the product. The consumer would then have to have the means to pay for the product and be able to physically buy the product thus forming a purchasing intention. The last phase of the process would involve an actual sale of the product to the consumer.

Marketers who used the stimulus-response model were mainly focused on the results of advertising and they measured advertising expenses versus actual sales revenue. These marketers were also able to monitor the effectiveness of campaigns by examining how far down the decision making process people had progressed before they were impeded. For example, some consumers might have wanted a product but there may not have been enough outlets to sell it or the product may have been out of the intended buyer's price range. In other cases, the product may have met some needs, but not all the necessary needs, to enable the potential consumer to progress to the next stage. Through reviewing these processes marketers learnt how to develop consumer interest in a product that would lead to a purchasing decision. One of the problems with the model was that it was too simplistic to represent all of the purchasing decision pathways that consumers used when purchasing products.

14.5.2 Stimulus-organism-response model

The stimulus-response model was replaced by the more advanced stimulus-organism-response model which examined the thinking of the decision maker in much more detail. Instead of consumers simply being elements that could be turned on or off by advertising the new model accommodated a wider array of consumer behaviour. This model enabled consumers to initiate a need and then seek a product to fill that need. A decision maker was described as an organism that had perceptual, physiological, feeling and thinking skills. These skills would evolve via a wide range of pathways which would lead consumers to a purchasing decision.

The stimulus-organism-response model also added in another source of stimulus and that was the environment in which the consumer existed. Living in a fast paced metropolitan environment caused people to desire products that other people owned. Knowledge of this process developed the research interest in product leaders who influenced other people who lived and worked in their environment. The stimulus-organism-response model is shown in Figure 14.2

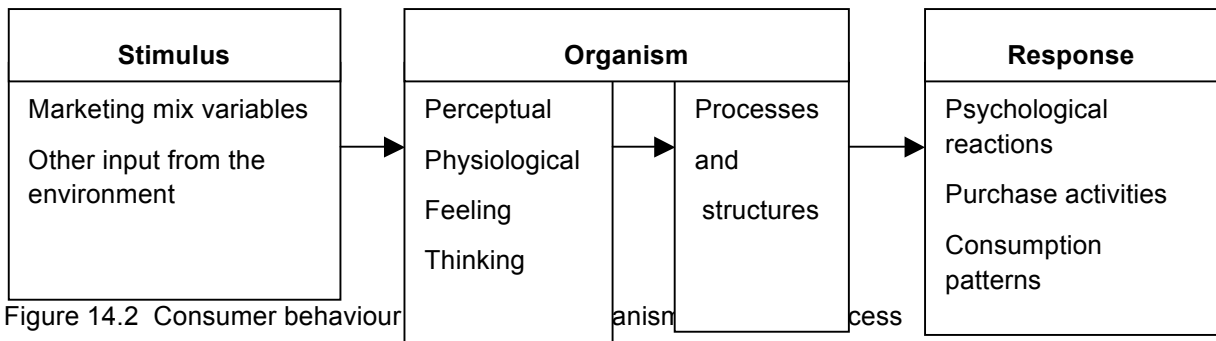


Figure 14.2 Consumer behaviour

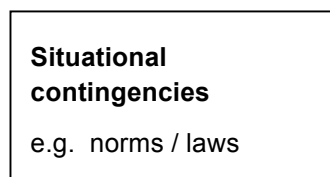
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Source: Bagozzi (1986) Figure 2-6, page 64.

14.5.3 Determinants of exchange

Sophisticated models now exist to map the purchase-decision framework. These models incorporate groups of people or states and their influences over purchasing behaviour. The penultimate stage of the purchase decision is the exchange process and the main elements of the decision are represented in Bagozzi's Figure 14.3



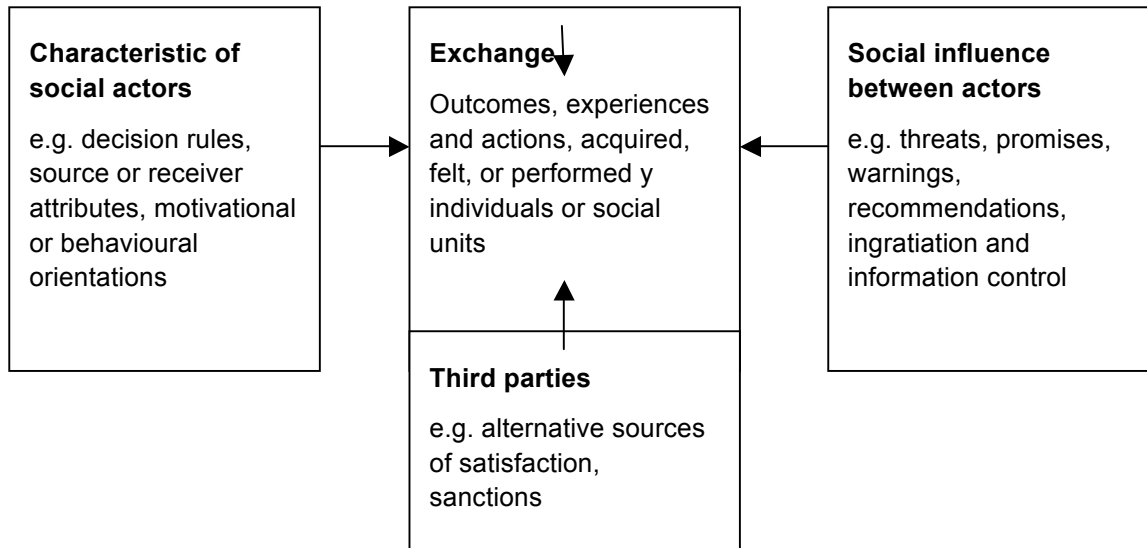


Figure 14.3 Determinants of exchange

Source: Bagozzi (1986) Figure 3-4, page 92.

In the figure 14.3 the exchange process is affected by four processes including situational contingencies, characteristics of social actors, social influence between actors and the actions and influences of third parties. This figure represents the processes that organisations such as PETA use to influence consumer buying behaviour. PETA use the social influence characteristics to argue that mulesing is harmful to animals and the group under pins this with third party actions against retail stores and chains (store protests). They engage prominent people or leaders to back their claims using social influence and they attempt to change laws and practices through the situational contingencies dimension.

14.5.4 Perceptual maps

Perceptual maps are used to show how consumers rate products across either two or three dimensions. In the perceptual map (Figure 14.4) the horizontal dimension is “value” and the vertical dimension is association with either natural or synthetic production. The maps are constructed through surveys asking consumers how they rate each of the different products. Combining the results over many consumers shows which products are similar and which are different. In the map below wool, cotton, silk and linen are similar, and hemp, flax and hair are similar, but the latter group were perceived to be of low value. Marketers use this information to determine which products are competitors and the degree to which they have to reposition their product in the minds of retail buyers or consumers.

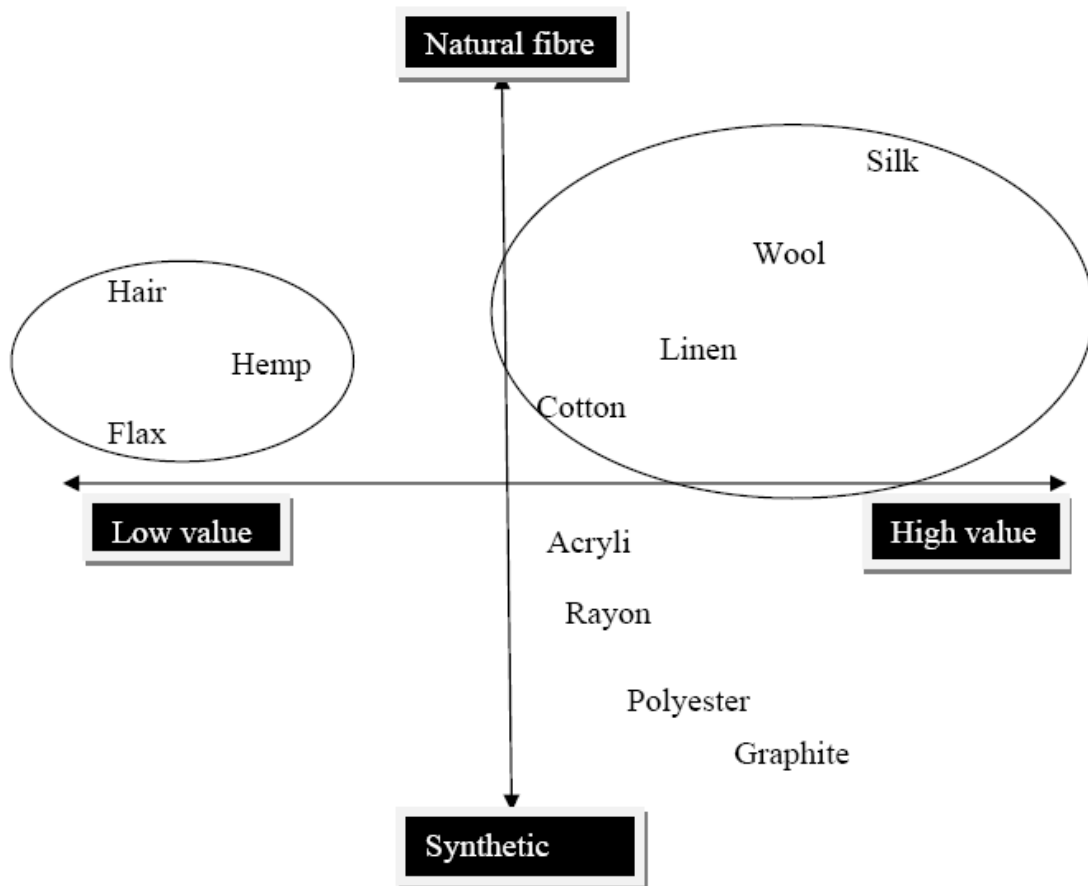


Figure 14.4 Perceptual map of fibre value and natural or synthetic association

14.5.5 Market survey information

There are many sources of industry information that marketers can use to forecast product supply and consumer demand. One reliable method is to survey industry experts and ask them for their ideas on the coming season. The Delphi method is used in business to predict trends. The method relies on individuals completing surveys and then averaging the responses of all survey participants. In the Delphi method the individuals have a second round where they can adjust their response after they see the average response from the first round. The Delphi method is superior to other techniques where people are gathered in rooms and can communicate with each other during the survey process. In these other cases individuals play mind games to be the expert or the leader and these games often interfere with their true perceptions of the industry's future and produce individual led bias or leadership bias.

There are market analysts who travel the world analysing consumer trends, fashions and retail margins. The market research companies produce reports that are used by the trade to ensure that new products conform to market expectations.

14.6 Product

Agricultural goods are produced through natural processes such as cropping systems or animals grazing pastures to produce meat and wool, and these processes lead to variability in product quantity and quality. In the production process for wool the amount and mix of pasture will change throughout the year. Changes in pasture will also occur within the same season and therefore the end product, wool, will change in quality from month to month or year to year

from the same farm. This aspect of agricultural production leads to many more challenges in marketing agricultural commodities relative to other commodities.

Variability in agricultural commodities has led to the development of grading systems that aim to group products with similar attributes for sale. Product grade systems exist for many products. Products are generally classified according to several attributes such as micron, length and strength for wool, live weight, age, breed and fat score for cattle, and size, shape, colour and firmness for strawberries. In some cases the importance of attributes of some products may change as the product progress through the supply chain. A lamb, for example, provides a carcass, offal and a skin. Skin buyers are not interested in meat attributes of the animal and meat wholesaler and butchers are not interested in the skin quality of the animal; however, the market forces of one sector will have a significant impact on the other.

Much of this unit is focused on wool products and the grading scheme that is used to group lots of wool with similar attributes. In general the present marketing schemes are designed to group wool from different lots so as to maximise competition on the lots presented. That is, wool grading is targeted toward average market requirements rather than the requirements of a specific processor. There are various supply chain schemes where producers prepare wool to a particular client's specifications; however, the percentage of wool sold via these schemes remains small.

There is an optimal number of grades of wool to produce where the marginal cost of creating an additional product grade is less than or equal to the marginal benefit of the price received for that grade. In many cases marketers try to create larger numbers of grades to better match supply to demand. Ryan, et al. (2010) showed in the superfine category of wool that style is valued more highly than micron and alternatively in other categories, such as in fine and medium wools, micron is valued more than style. In the strong category there was no significant premium for either micron or style. Marketers need to be aware of the potential premiums and discounts for products or grades to avoid segmenting the market too much.

Once products have been assigned to a product grade then the quantity of product within the grade can be assessed. Prices for products are derived from equating the supply of product in various grades with demand for the product in those grades. Supply of agricultural commodities, as stated above, is variable but so too is demand. Consumers do not generally require warm clothing in summer and therefore do not generally buy these products out of season. In the event of a warm winter the northern hemisphere markets may become overstocked and this surplus stock will then be marketed in southern hemisphere markets at a reduced price. In some cases it may take a full year to reduce stocks of some products to match demand.

14.6.1 Product Life cycle analysis

Products that are introduced to markets generally follow the life cycle trend. The typical product life cycle moves through four stages. The four defined stages are introduction, growth, maturity and decline. A typical product life cycle function is shown in the figure 14.5.

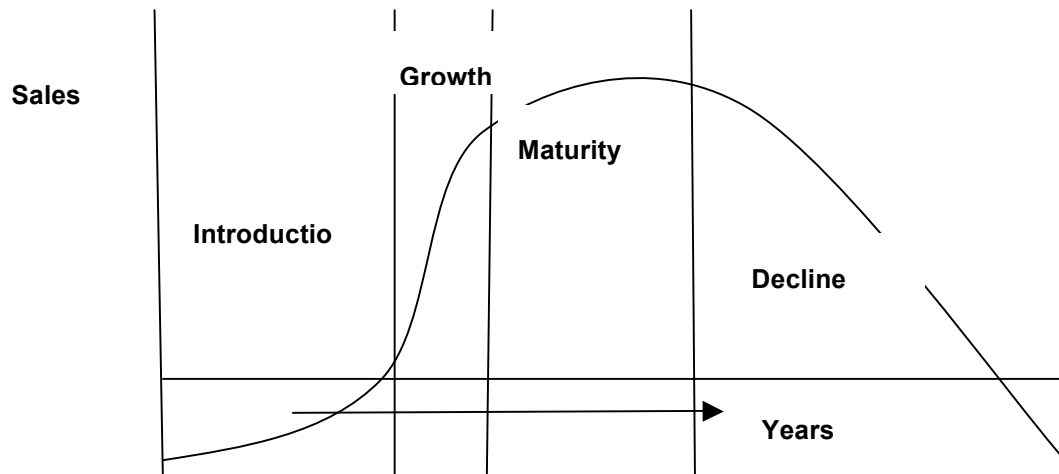


Figure 14.5 Product life cycle

Sales are generally slow during the initial development and testing phase. People who purchase the product are classified as early adopters and like to try new products. In the “growth” stage the product becomes more consistent and a group called followers usually buy the products at this stage. The third stage is “maturity” and this occurs when the rate of sales growth starts to decline and becomes flat. The mature phase can last for many years. The final phase is “decline” and this occurs when the product becomes redundant or superseded.

Ideally marketers would be able to identify the end of the mature phase of the life cycle and schedule the introduction of new products to overlap so that sales and market growth are held relatively constant over time. Figure 6 shows the ideal schedule for a series of four products that are each introduced at the end of the mature phase of the cycle for the previous product.

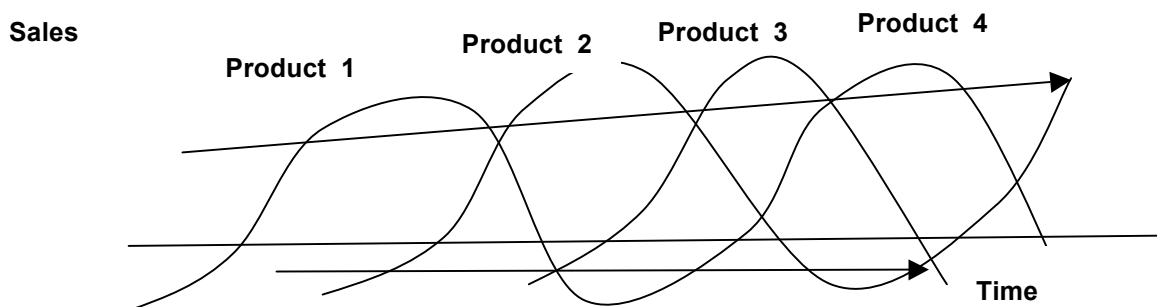


Figure 14.6 Product life cycle with scheduled innovation, development and marketing

14.6.2 Product profiling

The success of a product in a market needs to be constantly evaluated to ensure that the product is still providing a positive return on investment. The Boston Consulting Group classified products into four categories to provide a simple guide as to whether the product should be continued in a specific market.

The market success chart shown in Figure 14.7 shows that a “star” product is one that has a high growth rate and a high relative market share. If the product is returning a positive cash flow then it should be sustained in the market. New products can produce a negative cash flow whilst they are in start up mode; however, they need to produce positive cash flows to continue in this segment over time. A “cash cow” product has a low growth rate but a high market share.

These are typically products with well known brands that are difficult or costly for competitors to replicate. Cash cows are characterised by large positive cash flows.

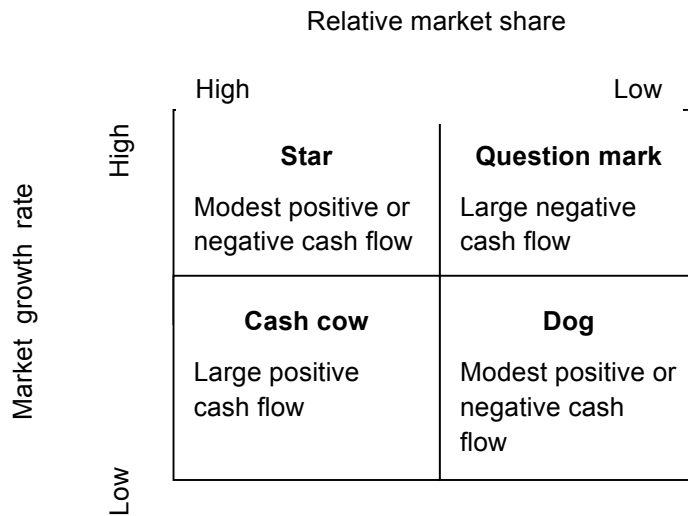


Figure 14.7 Market success chart

Source: Boston Consulting Group in Bagozzi (1986) Figure 16-2, page 683.

A “**question mark**” is a product that has a high market growth rate but a low relative market share. The large negative cash flows associated with these question mark products indicate that something is seriously wrong with the product in the assigned market. For example, the company manufacturing dungarees for kids has not been able to maintain market share versus jeans (Spark_123, 2009). The product or the marketing campaign needs to be re-evaluated to identify the problem. A “**dog**” product is one that should be withdrawn from the market. These products may produce a modest positive cash flow but they are often more trouble than they are worth and can end up damaging a firm’s reputation or brand. For example, woollen army blankets produced negative associations for wool as being scratchy and itchy. Dogs are characterised by low market growth rates and low market shares.

The product life cycle in Figure 6 shows that over time the value of products change relative to other products in the market. It is therefore expected that products will move from stars to question marks and may then become dogs over time. Cash cows are rare and should be promoted as long as possible; however, maintaining brand performance is generally a very competitive process as competitors are constantly working at developing their own market shares and introducing new products to the market. In some cases the introduction of a poor quality product by a competitor may undermine the whole market rather than just the market for the new brand. This sometimes occurs when a high quality product reaches the end of its patent life and cheap knock-off products enter the market. In these cases it may be wise for reputable brands to withdraw from the market before any damage is done.

14.7 Porter’s competitive advantage model

Porter (1988) shows the four forces that sustain industry rivalry. The sources of competition or rivalry are new entrants moving into the market. A new entrant does not have to actually enter a market for current market participants to reduce their prices. The mere threat of entry is often sufficient for this purpose. The threat of entry does need to be a credible one. In the meat processing industry mothballed abattoirs restrict the development of new abattoirs as the older plants could be reopened at any time.

In Porter's model suppliers can have a large impact on their business partners. For example the number of fertiliser manufacturers is very small and this industry has a strong advantage in setting prices of this vital input to farmers. Farmers have to pay the asking price as there are few alternate suppliers. Suppliers can also assist their clients to achieve competitive advantages by minimising transport costs and tailoring their services to suit the needs of customers better.

The role of buyers is also important in Porter's model. Given that China controls much of the early stage processing for wool its processors can have a large impact on the prices that farmers receive for wool and the prices paid by the downstream wool manufacturing industry. There are trade-offs between the number of processors and the competitive prices or costs for manufacturing. In the case where there are many processors the volume of wool processed by each plant would be small and therefore the economies of scale would be lower and the costs more expensive. In the case where there is only one manufacturing plant then the economies of scale would be higher, but the possibility of exploitation of suppliers or clients through higher costs would be greater. Competition measures such as the Herfindahl or Hirschman indices measure the degree of industry competition and these should be evaluated regularly as industry participants enter and exit the market.

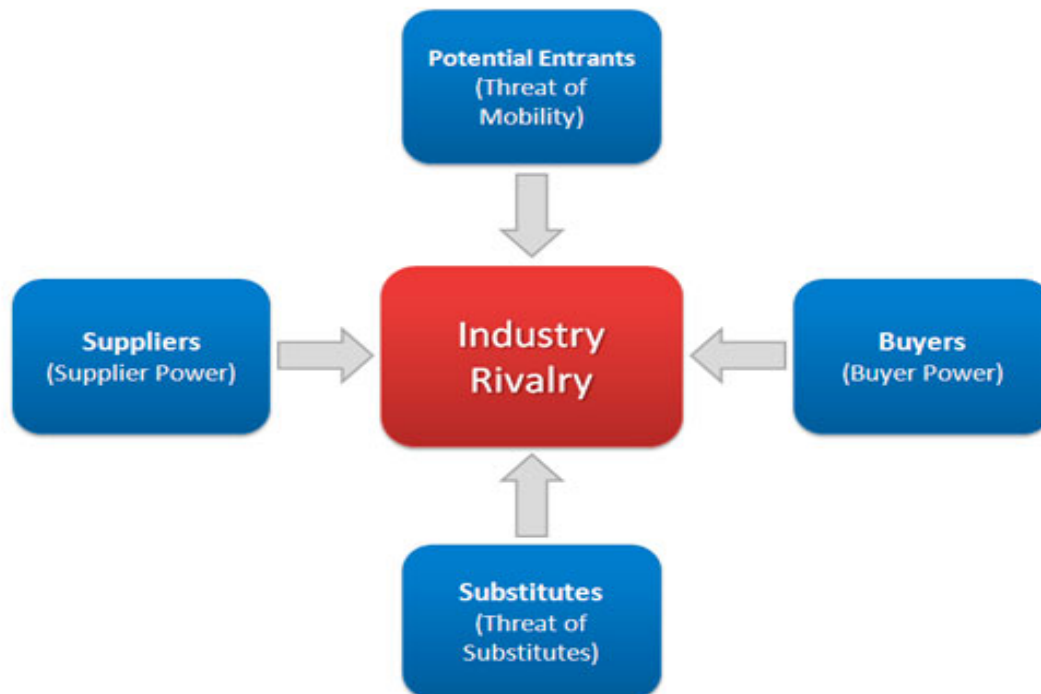


Figure 14.8 Industry competition

Source: Porter (1988) Competitive Advantage

In Porter's competition model the threat of substitutes is shown to be important for the success of a firm or industry. Producers of synthetic fibres and other natural fibres such as cotton and linen have eroded wool's share of the fibre market. The synthetic industry is dominated by a few large companies and these companies have been able to promote their products which are very versatile and consistent in quality. Due to the economies of scale of production and marketing they are able to capture a larger portion of the benefits that flow back up the supply chain. In contrast, wool production and processing is fragmented and the industry has lost control of the product in the processing, manufacturing and retailing stages of the supply chain. It is therefore difficult for wool producers to develop a new product or market when they do not own the downstream product manufacturing or wholesaling processes. The wool industry therefore needs to market woollen products via specialty supply chains and reward manufacturers and retailers who continue to develop and market wool products.

14.8 Price formation and wool value research

The price paid for a commodity typically represents the value of that good to another party in an exchange of the good. Prices reflect the underlying demand and supply for goods at the time and place of exchange. In periods of supply shortages prices increase to encourage farmers to produce more of the good. Alternatively, when goods are over supplied then the price decreases to discourage producers from supplying more of the good. Without stocks of wool the ability of the industry to adjust to demand and supply variations is reduced. Tomek and Robinson (2003) provide a comprehensive discussion on prices for agricultural products.

The most common method of selling wool in Australia is via the auction system (AWEX 2009). Wool is traded on a clean cents per kilogram basis. The farm gate price is derived by converting the clean price to a greasy price and then subtracting delivery, storage, testing, insurance and brokerage fees. This is the price that farmers use to make decisions between competing enterprises on the farm.

Much of the marketing research that is conducted in Australia uses the clean price at auction as a common basis for comparison with other enterprises.

Wool price analysis is typically divided into time series analysis or cross section analysis. Time series analysis is used to compare prices of different wools and wool substitutes over several years to identify which long-term variables are affecting price trends. Factors such as water prices for cotton, oil prices for polyester, or tree stocks for acetate will affect the price of fibre substitutes and therefore impact on wool in the longer term.

14.8.1 Drivers of wool prices

Research into the drivers of wool prices has been substantial and it is useful to review some of the literature surrounding wool marketing issues. Skinner (1965) was one of the first authors to identify the general factors that affect greasy wool prices. Simmons (1980) developed a more comprehensive model to calculate price premiums or discounts for different attributes of wool on auction prices. Beare and Meshios (1990) further refined the model to compare trends in demand for wools of different fibre diameter. They found that prices for wool attributes varied between micron categories. This result meant that variables such as length and strength would need to be evaluated for discrete micron groups rather than use micron as a continuous variable in price analysis.

The collapse of the Reserve Price Scheme in 1991 inspired more research into price risk in the industry. Bardsley and Olekalns (1996) found that price variations in some micron categories were found to be greater than others, which implied that the producers of those wools (less than 19 microns) should have expected to receive a wider range of prices and therefore invest in risk management strategies. Alternatively Chang (2000) examined the relative price premiums for wool of different microns with and without the effect of the Reserve Price Scheme and they found that the Reserve Price Scheme did little to reduce the price variations that farmers received. This result implied that other market forces were producing a greater influence on producer income.

When analysing markets it is important to understand the costs and prices of competitor's products. The main competitors to wool are cotton and synthetic fibres and these were compared to variations in wool prices in a study by Fadiga and Misra (2005). They studied the price relationships between fibres over time and concluded that cotton prices were the most volatile and the polyester price was the most consistent. Furthermore they found that cotton prices responded to changes in wool prices and oil prices, and that wool prices responded positively to changes in oil prices. They also found that the rayon price responded to oil, cotton and wool prices and that polyester responded only to changes in oil prices. These results show the causal relationships between fibres the factors that need to be considered when developing competitive pricing strategies.

There are many studies of markets for raw wool; however, few examine the relationships between the participants in the manufacturing sector of the industry. It is useful for wool producers to understand the thinking of the manufacturers as they drive demand for raw wool through contracted or commission buyers. Champion and Fearn (2001) interviewed wool manufacturers in Germany and Italy and asked for their opinions on a range of issues regarding the supply chain for wool. Their survey results indicated that manufacturers had virtually no direct communication with wool producers; however, they did communicate through wool buyers or agents. A number of manufacturers could not be sure if wool quality had improved in the past decade but several reported problems with wool contamination, especially with polypropylene. The manufacturers thought that further decreases in fibre diameter were not necessary; however, they considered that a reduction in fibre diameter variability would be useful. The respondents did not have problems with staple strength (several of the interviewees produced knitted products and strength was not a concern to them) or staple length. The results of this study show that manufacturers do not communicate well with wool producers and this problem therefore increases the time required to implement marketing and promotion initiatives.

The length of the wool processing supply chain reduces communication and innovation along the supply chain. The International Wool Textile Organisation and other organisations such as AWI try to fill the gaps in information in the supply chain by conducting interview with manufacturers and retailers and then passing this information back to wool growers. Market surveys need to be conducted regularly as the thinking of consumers can change quite rapidly. A typical survey for the retail sector of the industry was conducted by Peterson, Hustvedt and Chen (2008) who found that U.S. consumers preferred wool to acrylic and that consumers were willing to pay more for organic or environmentally friendly attributes of wool. The responses of U.S. consumers varied by socioeconomic and psychographic characteristics. Young Americans, in low income areas, preferred products to be made in the United States whereas this was perceived as a negative preference for older consumers with higher income levels. This information can now be used to target select groups of consumers with products that satisfy their needs and at the same time direct producers toward increasing their production of organic and environmentally friendly wool. The largest challenge to the industry is to ensure that any increase in organic or natural wool production is traced through the supply chain and that the wool products are directed toward the markets and consumers that are willing to pay more for them. The identification and labelling systems of the industry need to be regularly updated to ensure that growers and early stage processors are able to capitalise on these niche market opportunities as they arise.

14.9 Fashion Marketing

The terms push and pull are used often in the marketing literature. The term push marketing is used where a new product is promoted to consumers and the new product sometimes arises directly from exploratory research. The US Space program is credited with many spin-off technologies. Teflon coatings on frying pans and irons are examples of this technology. Henry Ford had apparently said that if he had conducted a survey and asked consumers what they wanted for better transport they would have said that they want a faster horse. Sometimes new products and ideas need to be push marketed to consumers to show them how the new products would fit in with their lifestyles.

Alternatively the term pull marketing is used where manufactures react to a specific demand that has been requested by consumers. Easycare fabrics have been demanded by consumers for a long time but the technology was not commercially available until recently. The fibre industry has been dominated by push marketing, particularly in the fashion domain. However it is now reacting more to consumer pull for natural and organic fibres. The industry therefore needs to balance push and pull marketing strategies.

The interaction between consumer pull and merchandiser push is complex for clothing. Colours and styles are regimented well before a fashion season begins. This lead time gives the industry an opportunity to work toward a theme, such as straight legs in pants or larger lapels in jackets, and it also enables the suppliers of accessories such as shoes, bags and makeup, time to prepare complementary product lines. Clothing products from designers are on show almost every six months with alternate summer and winter collections. Germany has the largest fashion fairs, which are held in March and October each year (Costantino 1998). Manufacturers from over seventy countries attend these fairs. The cities of Milan, Rome, Paris, London and New York also each promote products to the industry's media, fashion leaders and corporate buyers for the large retailing companies.

The relationships between retailers and their suppliers may be simple in that a store might only sell one brand or label. Other stores may buy and sell products from multiple suppliers. Garment manufacturers need to consider the cost of establishing a retail outlet or supplying products to stores that will market products on their behalf. Ownership of a retail store enables the manufacturer to better control the retail environment and train the staff to promote the exclusive brand. This option is very expensive. The less expensive option is to market products through chains of retail stores. There are many ways in which products can be bought and sold in franchise networks. A retailer may purchase products directly from a garment manufacturer and then sell the items through a standard mark-up system. An alternate method is for the garment manufacturer to retain ownership of the product and offer the retail store or chain a commission on sales. In other schemes, garment manufacturers will rent or lease floor space, and provide in-store staff to promote their own lines of products. This method is common in the cosmetics market.

There are many types of advertising and this specialised field examines who the potential target audience is, the time available for the information interaction and the amount of detail that can be therefore be conveyed. More information can be conveyed within a fashion magazine relative to a bill board that is located beside a rail platform. The magazine may be limited by circulation whereas the bill board may provide more exposure, but it may only be able to convey a few important points about the product. Designers make clothing for consumers in target market segments and therefore advertising needs to be in a place where each target audience will notice it. Advertising is useful to get consumers interested in the products and to visit stores; however, the products still need to be sold. Some advertising campaigns focus on the store or franchise while others focus on products that may be available across several stores.

The interaction between retailers and consumers has been the focus of much consumer research and the literature in this field of study is extensive. Dunne (2003) identifies the five basic steps in retailing:

1. identify your customer,
2. prepare for the presentation,
3. conduct the presentation,
4. negotiate the sale, and
5. follow up the sale.

It is important that retailers address each of these five points in preparing for a sale. Natural products, such as wool, require retailers to explain to the consumer why they need to pay more for a quality fabric or garment. The more expensive a product is the more the difference in price should be explained and there are many alternate sources of information that are available that help retailers to do this.

Sources of product information available at retail outlets (point-of-sale) include staff members, stands or displays, tags or brochures attached to clothing, voice recordings and more recently video and internet links. Consumers are now bombarded with product point-of-sale information so the messages that they receive must be clear and concise and provide them with answers to any questions that they may have. Sales people are vital in providing this service and one way to encourage staff to put more effort into completing a sale is to provide them with a commission on the brand or product lines. Many sports equipment stores use this technique to complete a sale especially for products that require fitting and measurement where consumers often do not take the time to discover differences in product quality.

14.10 International marketing

Marketing to corporate buyers and consumers in foreign countries requires extensive market testing. Some countries have similar business systems to Australia and New Zealand but most countries are vastly different. **Language** is the most obvious limitation to promoting a brand in a new market. There are many examples where language has been confused in translation and this has resulted in unexpected negative consequences or damage to brands. Most other countries use a different **currency** which means that costs and prices need to be adjusted for exchange rates. A lot of international exchange occurs in United States dollars. The **legal restrictions** in some countries are very different to Australia or New Zealand and there may be import or export rules to comply with before a product can enter or exit a country. Governments may require that import or export taxes and tariffs are paid up front. Some people in some countries ask for financial kickbacks as a normal part of doing business and these cases can cause extremely sensitive situations to deal with ethically and financially. There are Australian business executives serving jail time for using these techniques to do business. Some countries have cultural practices that will affect processing or sales such as certain holiday periods or religious events.

Employees in some countries are better educated or more **technically skilled** and consequently there can be large variations in work quality between countries. In some low cost countries labour is used in preference to high cost machinery to perform menial tasks. There is concern in some western countries over the treatment of workers in third world countries and the conditions in which they are working. Companies need to be vigilant to ensure that workers or employees who are engaged in manufacturing their products are not exploited.

National infrastructure is also very different between countries. Some countries have very efficient sea and air ports, rail systems and road networks, but in other countries products may have to be shipped in smaller volumes to allow for poorer quality infrastructure. For instance, wool that was packed into dense bales (Tri-packs) could not be handled safely and transported within China and therefore the Australian wool industry provided a warehouse at a freight terminal to unpack dense wool bales so that they could be handled more easily.

Some countries have **unstable governments** and assets such as factories, mills or retail outlets may come under threat. Wool processors can insure against such threats; however, the insurance is costly. It is common for industry participants to use credit insurance when dealing with buyers who are located in countries that are at a higher risk of bankruptcy.

Summary

Marketing in the fibre industry is difficult due to the fragmentation that exists between suppliers of raw products and the complexity of manufacturing linkages and the diversity of the retailing sector. Wool producers do not retain ownership of the product beyond the auction stage of the supply chain and therefore it is difficult for them to control the marketing and promotion of their products. Producers need to rely on high quality manufacturers, brands and retailers to

promote their products in a competitive clothing market place. The “marketing mix” included price, product, place, and promotion and it remains a useful tool to understand some of the complexities associated with the industry. The marketing mix is often used in conjunction with a SWOT analysis. Marketing has evolved to also include supply chain management and optimisation via value chains. The stimulus-organism-response model was developed to describe how consumers respond to marketing stimuli. Product life cycle analysis showed how the value of products changed over time and perceptual maps were used to identify similar products in the minds of consumers. Porter’s (1988) model of competitive advantage summarises the competitive forces which are applicable to all sectors of a supply chain.

The industry needs to ensure that information is made available to consumers that will encourage them to pay more for wool. Research has shown that consumers prefer natural products; however, the rate of turnover in the fashion industry works against products that are durable and high quality. The industry needs to analyse all elements of the value chain to identify an advantage for wool over cotton and synthetic fibres. This will require stronger links between producers and the manufacturers and retailers of woollen products.

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Glossary of terms

Advertising	The process of providing information to consumers in order to persuade them to purchase a product or service
Attributes (raw wool)	These include the fibre length, strength, diameter (micron), colour, style, tip, and level of contaminants of seed, burr or shive
Competitive advantage	A unique practice or product attributes that a company can use to provide a superior service or product relative to its competitors
Competition indices	The Herfindahl or Hirschman indices measure the degree of industry competition in specific markets
Cost price squeeze	The rate of increase in input costs rises faster than the rate in increase in output returns
Credence attribute	An attribute that cannot be seen by the final buyer such as “organic” or “naturally produced” – the consumer has to take the retailer’s word that the attribute is genuine
Delphi survey	A iterative method of surveying panels of industry participants which is used to minimise leadership bias
Entrants	New participants in a market place who may respond to higher margins but cause a reduction in market share
Exchange	The interactions between sellers and buyers in a market place to transfer a good or service from one to the other
Life cycle analysis	The analysis of products over time in specific markets, the stages include introduction, growth, maturity and decline
Market mix	Includes the 4 P’s of product, price, place and promotion
Marketing	Marketing is the practice of identifying and promoting the attributes of products for the benefit of sellers and buyers in the exchange of goods.
Perceptual map	A two dimensional plot of variables that can be used to compare products within markets using industry or consumer survey data. Statistical methods such as cluster analysis enable more products dimensions to be compared
Product profile	Allocation products into categories based on their performances in the market. The four main groups are dog, star, cash cow and question mark
Pull marketing	New products are demanded from manufacturers by consumers
Push marketing	New products are promoted to consumers by manufacturers

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Retailing	Sector of the market that interacts with the final consumers of goods or services
Substitutes	Alternative products that may be used to replace an existing good or service
Supply chain	The physical and service processes that occur in converting a raw material into a final product or service.
SWOT	An analysis of the strengths, weaknesses, opportunities and threats resulting from a particular strategy
Tariff	A fixed or variable duty imposed on imports or export by governments with the aim to restrict trade or raise revenues
Value chain	A function that increases the real or perceived value of a good or service to buyers or consumers that benefits a business