11. Developments in Wool Marketing

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Learning objectives

By the end of this lecture you should have an understanding of:

- The rationale for the development of alternatives to the traditional auction system
- The advantages that are sought in the development of alternatives
- The manner in which such advantages have been pursued
- Some specific examples of marketing system developments that have been tried

Key terms and concepts

Supply chain, marketing, risk management, forward contracts, alternative marketing systems.

Introduction

This lecture describes the development of alternatives to the traditional marketing system. Such developments have largely been driven from the producer end of the marketing chain and thus are basically alternatives to either selling at auction or to a private buyer. The rationale for the development of alternatives to the traditional (auction / private buyer) system are examined along with the way in which the alternatives attempt to address perceived shortcomings. Specific examples of alternative marketing systems are used.

11.1 Re-cap on the traditional system

The traditional wool supply chain is illustrated in Figure 11.1. Growers either sell wool at auction using a wool selling broker as agent or sell direct to a private buyer. The private buyers will then either on-sell the wool back through the auction system or direct to a wool exporter. The exporter supplies the early stage processor who supplies the spinner and so on.

Within this supply chain system there is a reasonably high degree of vertical integration, such as in the case of exporters who are also processors.

Figure 11.1 The Wool Supply Chain. Source: Mitchell, (2007).
There are a number of factors to which the emergence of this structure over time can be attributed. Principal among these are:

1. The fact that growers produce on average around 50 bales of wool per annum compared to single processing batches being between 100 and 1,000 bales with annual throughput of typical early stage processing plants many times this amount.
2. The fact that growers are production focussed and have traditionally not wanted to take an active role in ‘marketing’ their wool;
3. The fact that growers are located throughout regional Australia while processors and customers are located throughout the world;
4. The fact that growers are largely unable to manage production to ensure that wool characteristics meet the tight tolerances required by processors (for example, many growers are unable to manage vegetable matter content to within ±1% while many processors require delivery within ±0.2%); and
5. The fact that with a very large number of wool types it is difficult to determine values without an extensive range of transaction information.

The auction system structure utilising brokers and exporters provides an efficient mechanism that overcomes all of these difficulties to a certain extent. Against this there is the lack of communication between producers and users of wool, the time taken for wool to pass through the chain, the lack of ability to differentiate based on quality control or brand and the fact that cost is added at every stage.

In addition, such a system creates price volatility since price signals are received by producers and processors after decisions have been made about production/consumption volumes.

Rationale for the development of alternatives to the traditional system
The proponents of alternatives to the traditional marketing system are principally growers and their agents (brokers). During the past ten years this interest in alternatives was principally driven by poor wool prices and the impact that these had on grower profitability.

The issues identified included:
- The costs and time associated with getting wool from the sheep’s back to the processing mill
- The extent of communication between producers and processors / users of wool
- The potential to differentiate product based on quality control
- The potential for demand to be increased through the supply of superior products
- The potential to gain premium prices through brand name marketing
- The potential to reduce price risk.

Some of the other associated indirect benefits sought included:
- The educational aspect
- Opportunities for group participation
- The potential to have an alternative to selling at auction
- The potential to form relationships with international wool customers.

The costs and time associated with getting wool from the sheep’s back to the processing mill
The high cost of wool compared to other fibres is compounded by the higher costs associated with getting it from the producer to the spinner. Table 11.1 provides an indication of the relative costs associated with getting wool to the spinner compared to cotton. Note both the higher starting cost and higher percentage increase for wool.
Table 11.1 Indicative Cost Comparison – Wool to Cotton.  

<table>
<thead>
<tr>
<th></th>
<th>Wool</th>
<th>Cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer price $A per kg</td>
<td>$7.00</td>
<td>$1.50</td>
</tr>
<tr>
<td>Shipping / Insurance / Trader Margins etc</td>
<td>$1.00</td>
<td>$0.26</td>
</tr>
<tr>
<td>Early stage processing costs</td>
<td>$2.00</td>
<td>$0.00*</td>
</tr>
<tr>
<td>Cost to Spinner</td>
<td>$10.00</td>
<td>$1.76</td>
</tr>
<tr>
<td>Percentage Increase</td>
<td>43%</td>
<td>16%</td>
</tr>
</tbody>
</table>

* In the cotton industry early stage processing costs are offset by the proceeds of cotton seed sales.

In addition to looking to reduce these costs a reduction in the time taken to get wool from its greasy state and into processed form has also been targeted. It is felt that the long time period (six to 12 months) inhibits wool’s ability to compete with other fibres for textile market share. By selling direct to processors it is conceivably possible to reduce this time.

The extent of communication between producers and processors / users of wool

A significant amount of information about what wool processors require can be found in price information from auction and related wool markets. For example, the higher prices for sound wool compared to tender wool reflect the importance of this characteristic in processing. Likewise, the fact that forward prices are often at a discount to spot prices reflects the preference of buyers to purchase in the spot market.

However, there is a gap in communication that principally relates to the lack of understanding that producers have of processors’ businesses and vice versa. The pursuers of alternative selling systems have attempted to bridge this gap, educating processors about the factors associated with wool production and learning about the issues associated with wool processing in return.

The potential to differentiate product based on quality control

Quality control is a critical issue in wool marketing and processing. It relates to how the wool is prepared and the risk of contamination with foreign material (including coloured and foreign fibres). Processors claim that the costs associated with poor quality control (particularly in relation to dark fibre and foreign fibre contamination) amount to many millions of dollars annually.

The wool industry scheme of classer training and accreditation is designed to provide an acceptable level of quality control across the entire national clip. Nevertheless, the potential to improve on this standard has been variously identified and pursued. Most evident have been the Elders ‘ClipCare’ system and the Landmark ‘Dalcare’ system. Many other brokers and marketing organisations have also introduced systems, generally involving some form of auditing of on-farm quality control procedures. The problem with such systems, however, was the inability to obtain a higher price for the wool to justify the cost. Processors were evidently not able to discern any tangible benefit in buying wool accredited under these systems and were therefore unwilling to pay any higher prices, particularly since no-one was prepared to provide any form of guarantee of quality.

In seeking to deal direct with the processors some proponents of alternative marketing systems saw an opportunity to take quality control systems to a new level. Direct relationships created the possibility to obtain some form of return from improved quality control, even if indirectly in the form of repeat business. By seeking to obtain an ongoing relationship based on the quality control the producers were in a way guaranteeing their quality control system since the reputation of their scheme depended on it.
The potential for demand to be increased through the supply of superior products
Many of the producers involved in direct marketing were those growing wool that they perceived to be of superior quality. In many cases this was actually true. The wool was from good growing areas with high tensile strength and low vegetable matter.

Through an improved understanding of the needs of processors and an enhanced quality control system they saw the potential to deliver a superior product to that being delivered through the traditional marketing chain. In particular they also saw an advantage in not being involved in the processes of blending and averaging to meet required specifications at the lowest possible cost.

By delivering higher quality greasy wool they perceived that a higher quality product might be able to be produced (rightly so in many cases) and that this would help to increase demand. In principle this was correct, however its achievement on a large scale remains questionable.

The potential to gain premium prices through brand name marketing
For many years wool had been marketed generically using the Woolmark logo. The merits of such an approach were often debated within the industry, particularly during the 1990s when prices were falling due to over-supply and lack of demand.

In this environment the principles of brand-name marketing that had been successfully applied in other industries were attempted to be applied to the wool industry. In so doing, the people involved in such endeavours often chose to develop brands that related to the production origins of the wool.

The potential to reduce price risk
Despite the existence of forward selling and futures products in the marketplace one of the advantages sought from contractual arrangements with processors was the elimination of price risk. Once the contract price had been established the producer would no longer be subject to movements in wool prices.

Indirect Benefits
By becoming involved in alternative marketing initiatives producers also saw benefits from increased knowledge about the wool industry that would be gained, including that which would arise from the group participation element. It would also potentially give them an opportunity to form relationships with their customers overseas while at the very least providing an alternative to the conventional selling system at a time when market prices where very depressed.

11.2 The number and different types of alternative wool marketing systems
Hassall and Associates (1997) identified 30 cooperative wool selling schemes. All of these were grower-driven and many are no longer active.

In addition to these groups there are also a number of alternative wool marketing systems that have been developed by brokers such as Australian Wool Network and Elders and by Government departments such as the Victorian Market Linkages program.

Of the groups identified by Hassall and Associates there was a dominance of bloodline and geographic orientation. In the case of bloodlines the parent stud was often the catalyst for bringing the group together on the basis that a significant volume of similar wool types should be able to be achieved. Groups based on close geographic proximity also identified the potential for achievement of significant volume of similar wool, in this case due to similar climatic conditions.
rather than genetics. In both cases there was generally a desire to use this volume to be able to take their wool through to early processing stages and sell directly to spinners or even weavers/garment makers.

One of the most common features of marketing groups was the use of a quality assurance scheme. The management of such schemes ranged from self-accreditation based on existing industry standards through to the development of new standards, extensive training and the use of external auditors.

In many cases it was the accumulation of substantial volumes of similar wool types combined with enhanced quality control that formed the bases for a planned system of wool marketing that obviated the need for the traditional chain based around the auction system. In this way growers hoped to achieve higher prices and better information.

11.3 Examples of alternative wool marketing systems

**Fibre Direct**

*Origins and objectives*

Fibre Direct is probably the most well known alternative marketing system. Its origins go back to the 1970’s when Mr Jim Maple-Brown and other growers in the Southern Tablelands established the Economic Wool Producers Company (EWP). EWP attempted to utilise the advent of objective measurement of wool to improve the efficiency of the wool selling system, however it succumbed to commercial pressures from other sectors of the industry and was ultimately disbanded.

In 1993 a new company, Australian Wool Enhancers (AWE) was established by many of the same growers who were involved with EWP, again led by Jim Maple-Brown. The primary objective was to improve returns to wool growers and this would be achieved in the following manner:

1. Delivery of a superior product to be achieved through the adoption of a superior quality control system involving crutching of all sheep prior to shearing in order to reduce dark fibre contamination risk and the employment of external auditors
2. Creation of price premiums through brand-name marketing
3. Reducing preparation and supply chain costs by combining the quality control scheme with a quantitative assessment of wool quality prior to shearing the method of wool preparation was in many cases able to be radically altered with no detrimental impact on the quality of the wool tops being produced. Sound, clean wool clips were found not to be needed to be skirted or classed in the traditional manner, the wool could be tested on farm and then delivered straight to the processing mill or export terminal.

One of the key differentiating factors was the method used to calculate prices to growers. It was based on the formula developed by the Australian Wool Testing Authority (AWTA) known as the TEAM (Trials Evaluating Additional Measurement) formula. The TEAM formula provides a means for predicting the processing performance of the wool and payments to growers were based on the predicted performance rather than on greasy wool characteristics. This involved calculating a value for the wool top and then apportioning that value to each of the growers’ whose wool comprised the consignment based on the percentage of waste after processing (Romaine), its fibre diameter and the length (Hauteur) and coefficient of variation (CVH) of length of fibres after processing.

The company was later renamed Fibre Direct and annual turnover by the mid 1990’s was around 10,000 bales. Profitability, however, was constrained by having insufficient turnover to cover overhead costs and insufficient capital to grow significantly (due to the need to fund the wool in between purchase from the grower and sale to the spinner).

In 1998 the business was sold to Landmark (then Wesfarmers Dalgety). With strong financial backing the business quickly grew to approach turnover of 100,000 bales and achieved the highest profile of any of the alternative marketing systems. Unfortunately, volumes subsequently declined and although still in existence the system is no longer actively promoted by Landmark.
Operation
The operation of the Fibre Direct system has changed somewhat over time and can be looked at in three stages as follows:

1. AWE/Fibre Direct system: The original system as operated in the days when the business was known as Australian Wool Enhancers
2. Wesfarmers purchase: Modifications made by Wesfarmers Dalgety
3. Supply Arrangements Introduction: The subsequent introduction of a modified version of the Fibre Direct system designed to accommodate a wider range of wool types.

AWE System
The AWE/Fibre Direct system was presented to growers in a number of steps as illustrated in Table 11.2. The main features of the system are that by testing the wool and removing urine stain prior to shearing, the wool from single mobs of sheep can be sold prior to shearing and then prepared for processing rather than marketing. Such preparation does not require skirting or classing of the wool in the traditional manner.


<table>
<thead>
<tr>
<th>Step</th>
<th>Actions</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Removal of Urine Stain</td>
<td>Within 12 weeks prior to shearing remove urine stain by crutching ewes or pizzle-ring wethers.</td>
<td>Customers require wool tops free of dark fibres. Stain removal prior to shearing has been demonstrated through scientific research to be the most effective means of removal.</td>
</tr>
<tr>
<td>2. Sampling and Inspection</td>
<td>Between 9 and 5 weeks prior to shearing a sample of wool is taken from 5% of the mob.</td>
<td>This size sample has been demonstrated to be sufficient to predict final wool characteristics and to use as the basis to negotiate forward sales of the wool. At the same time the sheep and shearing shed will be inspected. For the system to work the mob must be of similar type sheep and the cleanliness of the shearing shed and associated yards must be of satisfactory standard so that contamination is avoided.</td>
</tr>
<tr>
<td>3. Price Offer</td>
<td>Grower will be offered a price prior to shearing.</td>
<td>The price is based on the sample results with a schedule of adjustments based on final core test results. At this point Fibre Direct would be negotiating on-sale of the wool tops to be produced.</td>
</tr>
<tr>
<td>4. Shearing, clip preparation and baling</td>
<td>Removal of any foreign matter such as dark fibres, skin pieces.</td>
<td>Further quality control process. Fleece are not skirted or classed. Preparation is for processing not selling/marketing. Provided the sheep are from a mob with similar wool characteristics a very well blended product will be delivered. All wool is pressed and weighed on-farm. Random weight checks were considered satisfactory to ensure farm weights could be used.</td>
</tr>
<tr>
<td>5. Core Sampling</td>
<td>Hand core guns are used to take samples in the shearing shed.</td>
<td>By having weighed and cored the wool in the shed it does not need to be sent to a wool warehouse thus saving a significant amount of cost.</td>
</tr>
<tr>
<td>6. Consignment</td>
<td>The wool is consigned either direct to a processing mill or to a dump.</td>
<td>If the wool is being processed in Australia it can go straight to the mill, otherwise it must be dumped (pressed in high density) prior to shipping.</td>
</tr>
</tbody>
</table>
The AWE/Fibre Direct Company would take ownership of the wool once it was delivered to the mill or the dump. They would then arrange for processing and delivery of the wool tops to the spinner customer. The price paid to the grower was calculated by working backwards from the value of the wool top and evaluating the relative contribution of each grower lot to that wool top. AWE/Fibre Direct charged a commission of 5% which was deducted from the grower price.

Wesfarmers Purchase
When Wesfarmers (now Landmark) purchased the Fibre Direct system a number of modifications were made. These were largely based on the need to improve the robustness of the system. In the Fibre Direct business much of the volume was coming from grower shareholders of the company and as such they generally tried to do the right thing in terms of wool preparation and delivery.

However, there was room for manipulation and inaccuracy, issues which had to be addressed when expanding to a target of 100,000 bales and taking wool from all over Australia. The major changes were:

- Engagement of a firm of independent auditors to conduct spot checks on-farm (the auditors were mostly the founders and shareholders of AWE)
- The practice of leaving ‘locks’ in the wool was disbanded
- All wool would be directed to warehouses for weighing and coring - the improvement in accuracy was found to offset the increase in cost
- Some wool would be sold in greasy form to topmakers rather than being processed on a commission basis and then sold to spinners.

The latter change was necessary but unfortunate for the system. The best results were found to be obtained when the wool was taken through to the top stage and sold to spinners, however at the time this was not an attractive commercial proposition. Due to over-capacity arising from the decline in sheep numbers the early stage processing market had become extremely competitive and better returns could be obtained by selling the greasy wool to the companies who owned the topmaking machinery.

Supply Arrangements Introduction
With the evolution of an increased amount of greasy wool sales the wool preparation system was found to be able to be modified for some wools in order to reduce the costs associated with it.

The Fibre Direct system itself was not altered but a new contract alternative known as Supply Arrangement was introduced. Figure 11.2 illustrates the differences between the two.

Basically, lower quality wools better suited to greasy sale would have the bellies removed and stain removal could be conducted on the board if required. In addition some wools that could not be handled by Fibre Direct (such as those with very high vegetable matter content and those with low strength) could now be taken.
Full details of the operation of the two systems are provided in the attached newsletter newsletter8aug01v2.pdf and procedures manual ProceduresManualPWM4Jul01.pdf.

**Outcomes**
In its current form the Fibre Direct / Supply Arrangements system remains in existence but is no longer actively promoted by Landmark and volumes are believed to have fallen dramatically. The system faces numerous commercial challenges, most importantly the fact that in the current depressed market environment trading and processing margins are continuing to diminish. This has reduced the benefit that can be achieved by selling direct to processors and subsequently reduced the amount of benefit that Landmark can pass on to growers.

### 11.4 Australian wool network contracts

**Origins and objectives**
Australian Wool Network (AWN) is one of the fastest growing wool brokers in Australia. During the period from 2002 to 2007 it has expanded operations to cover the whole of Australia. The company has a number of leading international fine wool processors as shareholders and has previously used this network to develop a direct contracting alternative for fine/superfine wool producers.

These contracts are designed to achieve a number of positive outcomes for growers of fine/superfine wool as follows:
- Management of price risk (particularly since the finest futures contract is 18 micron and it is extremely illiquid);
- Improved communication with customers;
- The ability to be able to produce wool to a known required specification.
For the customers the contracts also provide a means of managing price risk and provide certainty of supply of a particular wool type.

**Operation**
The AWN contracts range from around 6 months to three years in duration. The processes involved are as follows:

1. Grower approaches AWN and provides details of previous clip performance in terms of quality characteristics as well as expected volume
2. A contract is negotiated at a fixed price with specified quality characteristics, AWN acts as the agent, the other side of the contract usually being an Italian processing company
3. A range of acceptable qualities is specified along with a schedule of price adjustments within that range
4. At shearing time a representative of the buyer (normally the wool exporter representing that buyer) will visit the shed and advise on wool preparation
5. If the wool does not fall within the range of acceptable qualities then it will need to be sold on the account of the grower and acceptable wool purchased and delivered to fill the contract
6. The wool will be delivered to an AWN store and the grower will receive feedback regarding quality from the representative of the buyer
7. In the case of the long term (2-3 year) contracts an annual renegotiation of price will take place.

**Outcomes**
In principle the AWN contracts deliver many of the benefits sought by proponents of alternative marketing systems.

However, given that the focus of the company’s processor shareholders is in fine and superfine wool the contracts have only available to this sector. In addition, they are only suited to growers who are reliably able to predict future wool quality characteristics as the costs associated with selling wool that does not meet specification and sourcing the required quality can be extensive.

Accordingly, such contracts do not represent significant volume, however they do provide an interesting model for potential future developments in this area. Of particular interest is the fact that the broker (AWN) is part owned by the exporter and the processor and in this way the supply chain has effectively been shortened considerably.

One of the problems with this contracting model is that invariably price changes cause either the seller (grower) or buyer (processor) to feel that they have ‘missed-out’. During the period 2005 to 2007 no new contracts were negotiated, largely for this reason. Accordingly,

As at mid-2007 AWN is investigating ways in which direct supply contracts can be further developed and re-launched. One possibility is that this may involve the use of derivatives (futures contracts) to allow long term commitment for the wool without but still participating in future market price movements.

AWN also offers short term direct supply contracts that are not dissimilar to both the New Merino and Fibre Direct models.

**11.5 Market linkages**

**Origins and objectives**
Market Linkages resulted from the Victorian Government’s Department of Natural Resources and Energy (DNRE) Wool Industry Strategy. The goal identified by the Minister's Wool Industry Taskforce was:

*To improve the information flow between growers and spinners so that growers receive the market feedback they need to help them produce wool that more consistently meets customers’ requirements.*
Studies identified that it was difficult for small groups of growers to form alliances to supply processors with adequate volumes of wool, of the required quality and specification, with accompanying adequate risk management strategies. Market Linkages was formed to improve information flows between woolgrowers and their customers and to demonstrate the feasibility and value of strategic alliances between the two.

The project commissioned work in order to:
- Analyse Victoria’s competitive advantages in producing wool
- Investigate opportunities for supply chains
- Review existing tools, products, services and systems for direct marketing
- Explore opportunities for cost savings.

**Operation**
The project was facilitated by 14 regional staff representing seven full-time positions. They held meetings across Victoria to inform growers of the project and sought participation agreement from three overseas mills:
- Indorama, Thailand
- Burlington Industries, USA
- Jaya Shree, India.

The other actions involved in development were:
- Eight wool growers visited overseas mills and reported their findings to the other wool growers;
- A profile of Victorian wool production was developed;
- A software tool called TopSpin was developed to combine processing predictions and pricing information to give the best blend of price and performance;
- On-farm wool testing was researched and
- Price risk management options were explored.

Eventually, three consignments of 20 micron wool and two consignments of 21.5 micron wool with a total value exceeding $500,000 were facilitated by Market Linkages. A further 10 consignments were built but could not be exported because an agreement on price or logistics could not be made.

**Outcomes**
The Market Linkages project succeeded in facilitating the direct supply of wool and educating growers about the benefits and pitfalls associated with such endeavours. The report (Market_Linkages.pdf) quoted growers as identifying the following benefits:
- Increased knowledge of direct marketing
- Increased understanding of price risk management
- Appreciation of Government support
- Recognition of the difficulties of getting closer to processors
- Skills to negotiate with service providers
- Recognition of the length of the wool supply chain
- Awareness of costs of moving wool along the chain
- Increased awareness of some issues and practices previously hidden by the roles taken by others such as brokers
- New knowledge on valuing wool
- New knowledge of resources such as 'e-wool'
- Increased understanding of wool processing issues
- Increased knowledge of on-farm wool testing tools
- Recognition that learning can be continued through other groups
- Use of the Victorian Wool Production Profile for benchmarking and research.

However, the learning from the project has largely not led to a continuation of the direct supply relationships. This suggests that despite the faults the growers had identified with the auction system it was still providing a reasonably effective and efficient mechanism.
11.6 Tasmanian quality wool

Origins and objectives
Tasmanian Quality Wool Pty Ltd (TQW) is a quality assurance organisation that was established in 1994 to develop and administer a third party quality assurance program, made up of:

- The major Tasmanian wool broker
- Tasmanian private buyers
- A processor
- The Tasmanian wool-classers association
- The Tasmanian Farmers and Graziers Association
- The State Department of Primary Industry, Water and Environment.

Following a 1997 world marketing tour, TQW decided that it needed to participate more directly in the European marketing of its members quality assured wool if it were to obtain the premium prices they believed it deserved.

Operation
A project team was established to develop a supply chain partnership involving:

- TQW representing the wool producers and broker
- Tasmanian Wool Company as topmaker
- Zwickauer Kammgarn Spinnerei as spinner
- Deschamps Textil as weavers
- Several up-market garment makers/retailers such as a Brax, Germany's largest makers of premium men's trousers.

A market trial of specially designed Tasmanian woollen garments was agreed for a three year program starting in autumn 1999. A graphical image was designed for use on all garments and a joint-funding arrangement for promotion was entered into.

Outcomes
TQW reported the outcomes as follows:

Performance improvements:

- Eight stages of ownership of the wool were cut to three
- The traditional 20-24 months lead-time from shearing to sale of garment was cut to 10 months
- A premium in excess of 10 percent was obtained for the key partners
- Forward for three years between TQW and Brax trouser company, equating to 400,000 pairs of trousers retailing at $200 each
- Brand promotion that focussed the 'Tasmania' trouser as a lifestyle, quality product.

Organisational improvements:

- Creating a reputation in Europe for a quality product and a brand name worthy of a premium price
- Delivering a premium over the market price based on a superior image and cost savings
- Being responsive to the needs of the market and reducing the time from the delivery of quality-assured greasy wool to completion of a finished garment to less than 10 months
- Valuing partnership, communication and a fair and transparent sharing of benefits and rewards.

Such comments indicate an overall satisfaction with the outcomes of the project. Previously it was understood that TQW were in discussion with a number of parties regarding new projects in the knitwear and corporate wear markets. No further progress appears to have been made.
11.7 Pooginook wool initiative/natural instinct wool company

Origins and objectives
The Pooginook Wool Initiative is a quality assurance scheme based around similar genetics (those of the Pooginook stud). From this has evolved the Natural Instinct Wool Company, a research and development company involved in the marketing of Pooginook wool. See http://www.pooginook.com and http://www.naturalinstinctwool.com.

The objectives are to form a relationship with wool processing companies and add sustainable profits to growers using Pooginook genetics.

Operation
The Pooginook Wool Initiative claims to offer growers:
- Continuous improvement in elite genetics
- Brand marketing under 'Pooginook Bred' in the wool store and the saleyards
- Marketing support and assistance for wool and sheep sales
- Educational workshops in breeding, wool production and risk management
- Wool marketing contacts and promotion of sale details
- Sheep sales listed on internet
- Group buying discounts on inputs and services such as wool testing, wool packs and sheep tags
- Regular information updates on issues and opportunities
- Regular feedback from overseas customers
- Ongoing brand building through integrated marketing.

In order to qualify for these benefits growers must have sheep that are bred from rams purchased exclusively from Pooginook for at least the past five years. They must also meet strict quality assurance requirements for both sheep and wool. Wool can be sold either through traditional channels (in which case it will be branded as Pooginook Bred) or through direct marketing arrangements.

The primary purpose of the Natural Instinct Wool Company is to provide a service to the growers of Pooginook wool. The company aims to promote the unique qualities of the Pooginook Bred wool Brand to benefit both the wool grower and the customer. It also pursues other value adding opportunities for Pooginook wool such as obtaining reliable information and statistics on wool types, encouraging best farm and wool production practices and facilitating buying and selling process for both wool growers and broker.

Outcomes
Pooginook are continuing to pursue alternative and direct wool marketing based around stud genetics and quality assurance. While much of the wool is still sold at auction the branding and continued development (in particular through the Natural Instinct Wool Company) makes it one of the leading grower marketing initiatives.

11.8 New Zealand Merino

Origins and objectives
The New Zealand Merino Company is a joint venture wool services company combining the production base of New Zealand’s Merino woolgrowers, the marketing and supply chain activities of the former Merino New Zealand Ltd and the wool selling and logistics skills of Wrightson Ltd (the leading New Zealand Pastoral agency business). The Company’s Shareholding is held 65% by New Zealand’s Merino growers and 35% by Wrightson Ltd.
Direct wool marketing was started by Wrightson in the mid 1990s and the concept has been adapted by New Zealand Merino to include supply to key customers with whom strategic relationships were being formed.

**Operation**
The contracts are aimed at fine/superfine wool growers and not dissimilar to those of Australian Wool Network. The grower commits to a fixed price and a range of acceptable qualities. If the delivery falls outside this range then the wool must be sold and replacement wool sourced for delivery to the contract.

**Outcomes**
The use of such contracts has been widely accepted by growers in New Zealand and they have become an integral part of marketing for some growers.

New Zealand Merino claim that 40% of their sales are through contracts. The Company has also introduced a customer specific focus as can be seen in the newsletter (MerinoMatters.pdf) and on the website (http://www.nzmerino.co.nz/gwpreview/default.asp).

Growers will generally not commit all of their production but find a portion allows price risk to be managed and gives a good chance of having sufficient quantity of the required quality to be able to fill the contract. The educational aspect and feeling of being more a part of the supply chain are also important aspects.

In 2005 NZ Merino has been commissioned by Australian Wool Innovation (AWI) to examine how their concept of direct supply contracts could be applied to the Australian wool industry. Both the report and AWI’s response can be found at http://www.wool.com.au/Publications/Trade development/page 2213.aspx. The key findings of the study were that growers were interested in the NZ Merino model but that there was not sufficient dissatisfaction with the current auction system to warrant change. To date (2007) there is no evidence to suggest that AWI will take any further action in this area.

### 11.9 Elders

**Origins and objectives**
Elders provide a number of alternative marketing arrangements for growers, all of which are related to their involvement in the supply chain as illustrated in Figure 11.3. As with the other brokers such as Landmark and Australian Wool Network their objective is to provide alternatives for growers outside of the traditional auction / private treaty system.
Operation
As a broker, Elders offers grower forward and direct contracts through its exchange desk. This involves Elders sourcing prices from a range of buyers on behalf of the grower, either for prompt or deferred delivery. The form of the contracts is typical of many fixed price contracts with a schedule of price adjustments for variations in quality.

Elders also has a specific strategy for 'Elite' wool. Elite wool is that which meets particular subjective quality characteristics based on features such as crimp definition and staple formation. Elders has supported the development of specific markets for such wool and purchases it for processing on sale to users including Woolaby Australia. While the purchases are generally made at auction Elders remain involved in the processing and delivery of the wool and provide feedback to the growers.
As a processor Elders also offers growers the opportunity to supply wool direct to mill. The system works in a similar manner to Fibre Direct as follows:
1. Elders calculate a forward price from historical clip information;
2. The clip is prepared for processing including pre-shearing crutching and with fleeces not needing to be skirted;
3. Delivery is to an Elders store for testing;
4. The price is adjusted based on the difference between contracted quality specifications and final quality specifications; and
5. Elders provide price and processing feedback.


**Outcomes**
Elders have integrated alternative selling systems into their business as broker and exporter/processor and in the case of Elite wool even elected not to go outside the auction system. While none of these alternatives radically changes the supply chain they remain an integral part of the Elders product offering and ensure that the company is well positioned if their popularity with growers increases.

**Readings**
The following readings are available on CD

Summary

The traditional wool marketing system involves growers selling either at auction or direct to a private treaty merchant. The system has largely evolved this way due to the need to manage the supply of a large number of small grower parcels from many locations around Australia to a much smaller number of processors requiring larger volumes and located around the world. In addition, it has suited the majority of growers who have been happy to 'sell' rather than 'market' their wool.

Nevertheless, since the demise of the industry reserve price scheme in 1991 there has been a significant increase in the proportion of growers seeking alternatives to the traditional system. In doing so these growers are looking for benefits such as reduced supply chain costs, improved communication with their customers, the ability to differentiate based on quality control, superior prices from brand name marketing and the supply of superior product and reduced price risk. Indirect benefits such as those associated with improved knowledge about the wool supply chain and the establishment of direct relationships with customers were also sought.

A number of different types of alternative marketing systems have arisen over the past 20 years, mostly promulgated by the desire of growers to attain benefits from selling direct to customers. Hassall and Associates (1997) identified 30 cooperative grower groups largely based on the accumulation of substantial volumes of similar wool types (either on a genetic or regional basis) combined with enhanced quality control. Brokers such as Australian Wool Network and Landmark and Government departments have also been active in delivering alternative marketing systems.

Some of the more prominent schemes have included:

- Fibre Direct: originally developed and operated by growers before sale to Wesfarmers Landmark, a combination of quality control and direct market with the objective of eventually achieving brand name premiums. Characterised by completely redesigning the supply chain including sending wool direct from farm to mill and using a modified form of clip preparation.
- Australian Wool Network contracts: a broker initiated alternative to auction involving long term contracts for supply of fine/superfine wool to Italian mills.
- Market Linkages: a project initiated by the Victorian Government that successfully arranged for growers’ wool to be sold directly to overseas mills.
- Tasmanian Quality Wool: a supply chain project that emerged from an industry-wide quality assurance scheme and successfully took wool through to garment stage.
- Pooginook Wool Initiative / Natural Instinct Wool Company: a quality assurance scheme based around Pooginook genetics that has evolved to include direct marketing.
- New Zealand Merino: offer growers contracts for supply to key customers (and claim these account for 40% of turnover).
- Elders: Offer forward contracts as a broker and direct-to-mill contracts in their role as an exporter/processor. Have also structured supply chain relationships for 'Elite' style wool.

References


## Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Alternative Marketing</td>
<td>the marketing of wool by means other than selling at auction or direct to a private buyer</td>
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<tr>
<td>CVH</td>
<td>coefficient of variation of Hauteur</td>
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<tr>
<td>Hauteur</td>
<td>fibre length after topmaking</td>
</tr>
<tr>
<td>Romaine</td>
<td>the percentage of waste (noil) lost during topmaking</td>
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<tr>
<td>Spinning</td>
<td>the process of spinning wool fibres from a top to make a yarn</td>
</tr>
<tr>
<td>Topmaking</td>
<td>the process of converting greasy wool into wool tops</td>
</tr>
<tr>
<td>Traditional Marketing System</td>
<td>the marketing of wool by growers by either selling at auction or direct to a private buyer (private treaty merchant)</td>
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<tr>
<td>Vertical Integration</td>
<td>the act of being involved at more than one stage in a marketing/processing chain</td>
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<tr>
<td>Wool Tops</td>
<td>combed slivers of wool with grease, dirt and vegetable matter removed</td>
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