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# Value-adding and “Adding Value”

Produced for the CRC for Premium Quality Wool undergraduate program by;  
Dr. Peter Auer, The University of New South Wales.



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# Definitions

- **Value-adding**
  - revenue of the business **minus** cost of raw materials
  - not a measure of profitability
- **Value**
  - key to profitability & competitiveness
  - what buyers are willing to pay
  - superior value
    - lower prices
    - unique benefits



# What is Value-adding?

- **traditional**
  - raw materials into manufactured goods
    - industrial processing
- **recent developments**
  - later activities included
    - marketing
    - transportation
    - QA services
    - after sales servicing

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# Value-adding in Processing

|      | <i>Costs</i> | <b>AVERAGE SUIT</b> | <b>VALUE-ADDED</b>      | <b>QUALITY SUIT</b> | <b>VALUE-ADDED</b>      |
|------|--------------|---------------------|-------------------------|---------------------|-------------------------|
|      | FIBRE        | \$ 6.50             |                         | \$ 12.00            |                         |
|      | TOP          | \$ 11.50            | \$ <b>5.00</b>          | \$ 19.00            | \$ <b>7.00</b>          |
|      | YARN         | \$ 25.00            | \$ <b>13.50</b>         | \$ 45.00            | \$ <b>26.00</b>         |
|      | FABRIC       | \$ 65.00            | \$ <b>40.00</b>         | \$ 180.00           | \$ <b>135.00</b>        |
| SUIT | wholesale    | \$ 250.00           | \$ <b>185.00</b>        | \$ 500.00           | \$ <b>320.00</b>        |
|      | retail       | \$ 500.00           | \$ <b>250.00</b>        | \$ 1,000.00         | \$ <b>500.00</b>        |
|      |              |                     |                         |                     |                         |
|      |              |                     |                         |                     |                         |
|      | <i>Costs</i> | <b>AVERAGE SUIT</b> | <i>raw material (%)</i> | <b>QUALITY SUIT</b> | <i>raw material (%)</i> |
|      | FIBRE        | \$ 6.50             |                         | \$ 12.00            |                         |
|      | TOP          | \$ 11.50            | <b>57%</b>              | \$ 19.00            | <b>63%</b>              |
|      | YARN         | \$ 25.00            | <b>46%</b>              | \$ 45.00            | <b>42%</b>              |
|      | FABRIC       | \$ 65.00            | <b>38%</b>              | \$ 180.00           | <b>25%</b>              |
| SUIT | wholesale    | \$ 250.00           | <b>26%</b>              | \$ 500.00           | <b>36%</b>              |
|      | retail       | \$ 500.00           | <b>50%</b>              | \$ 1,000.00         | <b>50%</b>              |

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Peter Auer

Source: Griffith, R.E. (1993)



# Framework for Woolgrowers

- means to “add value”
  - niche marketing
  - promotion of individual brands
  - maintenance of quality standards
  - consistency of service
  - provision of financial services
- identify opportunities to raise buyer satisfaction
- strategies to exploit opportunities

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# Niche Marketing

- adds value
- needs of a particular market segment satisfied
  - market research
- specialised service
  - benefits must outweigh the additional costs
- current examples
  - Woolaby, Toorallie
  - Fibre Direct, Homestead Grazing P/L

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# Strategies for Adding Value

- **Broad Market Segments**
  - **Cost Leadership**
    - lowest cost producer
  - **Differentiation**
    - sole supplier, \$ premium, added “value”
- **Small Market Segments**
  - **Focus Cost**
    - lowest cost producer
  - **Focus Differentiation**
    - sole supplier, \$ premium, tailored

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# Focus Differentiation

- additional costs likely
- buyer **MUST** see advantage
- achieved by
  - higher performance product
    - QA procedures
  - performance guarantees
  - high level of reliability of supply
- current examples
  - Fibre Direct, Homestead Grazing P/L
  - Woolaby

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# Major Reference

- **Kaine, G., Tozer, P. & Grace, C. (1994), Where's the Value in Value Adding?, The Rural Development Centre, University of New England**

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