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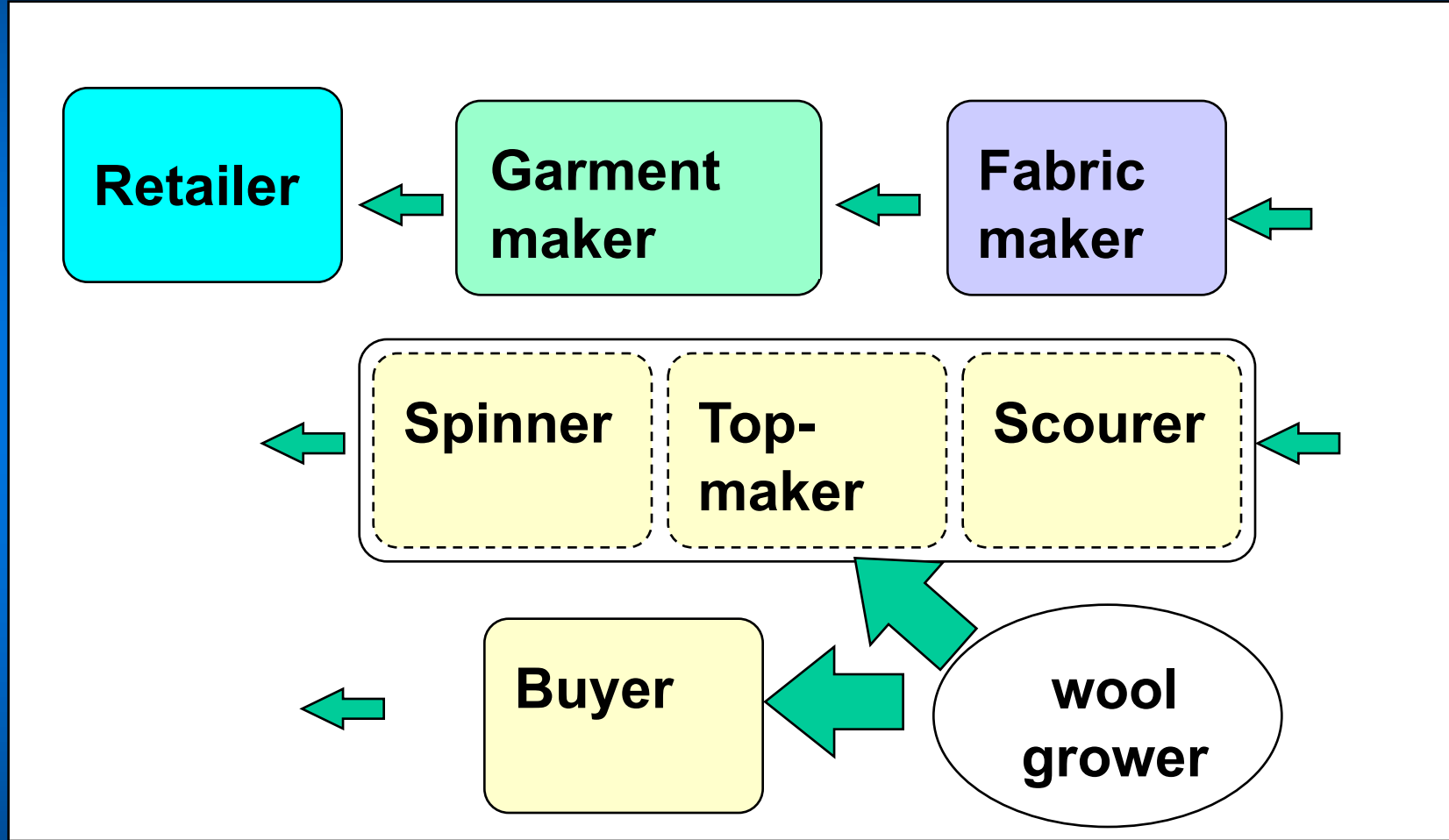
Wool

Raw Wool Marketing Choices

Produced for the CRC for Premium Quality Wool undergraduate program by;
John Seale, Wesfarmers Dalgety.



Ownership Transfer in the Wool Pipeline



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Auction Selling

- accounts for around 85% of sales
- orderly and effective method of disposal
- efficient way of aggregating wool from dispersed growers
- preferred sale method for exporters
- assists building mill batches to specification
- maximises competition
- regulations provide financial security
- main price discovery mechanism

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Tender Sale

- attracts less than 5% of clip
- most catalogues offered at end of week
- bidding is “progressive”
- higher proportion of dealer wool
- more flexibility, fewer ‘rules’



Sale By Description (Sale without Sample)

- reviewed by industry committee 1998
- limited success, appraisal issues
- buyer opposition remains strong
- potential to sell >60% of clip
- eliminates need for transportation between stores
- rationalisation of venues

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Private Selling: Spot (on farm, store door, price on result)

- negotiation between buyer and seller for immediate delivery
- buyer acts as agent, principal or representative of a mill
- competition mostly relates to clip size
- guidance or certified tests used
- final price can be determined:
 - in shed
 - in store
 - at store door



Private Selling: Forward

- negotiation between buyer and seller for delivery 3 to 6 months ahead of shearing
- locks in a price, with a premiums and discounts grid on delivery
- reduces price risk for producers

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Direct to Mill

- several options offered
 - outright purchase
 - grower owns tops
 - joint venture with tops
- mainly for larger clips
- a few growers/groups produce yarn
- predominantly niche market to garment stage
- limited competition



Batching Wool; pre-selling Tops

- mid-side samples tested
- price offered to producer on predicted top results
- dark fibre procedures strictly observed
- virtually no classing
- bales cored in shed
- prices adjusted for actual test results
- converted to tops locally or OS
- pre-sold top delivered to spinner

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Electronic Selling

- **Current methods**
 - offer board or tender
 - Woolink
 - *e-wool*
- **acceptance has been slow**
- **lots bought on broker description**
- **real benefits if SxD was accepted**
- **on-line auctions under development**
 - Woolink
 - AWEX

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e-wool

spot sales

- wool delivered to broker
- wool tested
- grower establishes target price
- listed on e-wool system
- buyer purchase
- broker pays grower

forward sales

- e-wool software
 - analyse
 - forecast
 - CoP
 - Target Price
- offer on forward catalogue
- normal forward transaction by broker



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Woolink

- developed by AWTA
 - competing with AWEX system
 - tender to another bidder
 - “static” trials from mid-August 1999
- electronic auctions
 - “live” trial 17 September 1999
- 3 brokers secured
- 50 lots offered
- 11 of top 20 exporters subscribed
 - 52% of last season offering

John Seale

Source: The Land (1999)



Taskforce

- **Open outcry Auction**
 - >75% of market
- **Private Treaty Merchants**
 - sometimes re-submitted through auction
 - 30% of WA market
- **Direct to processors**
- **Vertical integration arrangements**
 - backward (from processors)
 - forward (from fibre producers)

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Factors Influencing Choice of Selling Method

- Competition
- Price risk
- Cash flow
- Delivery Costs
 - farm to 1st stage processor
- Commercial Risk
- Grower Involvement / Control

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Levels of Competition

- Most woolgrowers look for highest price and greatest competition
 - not the case in other industries

Auction	- High
Tender	- Moderate/High
Electronic	- Moderate/Low
Forward sale	- Moderate (variable)
Direct to Mill	- Moderate/Low

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Price Risk

- price risk occurs in a volatile market
- forward contracts provide a guaranteed return
 - can relate to cost of production
 - banks may require evidence of minimum return from wool
- futures and options are tools to minimise price risk

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Cash Flow: access to selling

- cash flow requirements may influence selling method
 - time of sale, timing of payment
- access to selling differs:
 - most auction wool is sold within 3 weeks of shearing
 - tender and electronic within 2 weeks
 - private sales are potentially within days
 - direct-to-mill may involve long delays when growers retain ownership of tops

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Delivery Costs

- brokers services vary widely
- auction selling costs range from 9c/kg to 17c/kg
- freight savings achieved with direct consignments
- regional warehousing cost effective
- prices for direct to mill and private sales are net of costs

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Commercial Risks

- incidence of default low
- auction selling safest
- forward selling is usually through contracts
- most wool is insured

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Growers involvement / control

- some growers believe they have maximum control through direct selling
- majority of growers comfortable with auction
- direct sales need predetermined basis
- ownership of tops has drawbacks
- most brokers offer selling options

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Making a Better System

- accessibility
- competitive environment
- objective measurement
- quality assurance
- market information
- forward marketing
- electronic exchange of ownership
- pipeline shorter
- materials handling
- larger lines (container size)

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Major Reference

- **Seale J. (1996), Wool Selling Options - Strengths and Weaknesses, Wool Technology and Sheep Breeding, 44/4, 303**

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