

Page 6 1. Executive Summary and Recommendations

1.1. On-farm

In general, growers were strongly supportive of some form of demand generation for the Australian wool clip.

With respect to whom was best placed to undertake the demand generation activity ... a ‘new commercial entity’ was ranked first,

~ 89% of growers saying they would personally pay a fee, with the average level of this fee being 3.19% of their gross wool income.

~ production variability was cited as the key reason for not using the (forward sale) systems and some growers had been ‘burnt’ through experiences with other products/crops in this situation.

~ motivation for change through dissatisfaction with current systems was not high. As a result, it appears that overall motivation levels for change are low.

Familiarity and an apparent comfort that the current systems were delivering the best possible outcomes, appeared to be the key drivers behind selling and risk management system choice.

~ there appears to be three barriers to more widespread uptake of alternative demand chain and risk management models by growers, specifically:

1. Low levels of dissatisfaction with the current system;
2. Low levels of understanding as to what alternative systems might provide; and,
3. Poor connection of ‘extension messages’ to the needs and perspectives of the various subsegments of the grower population.

~ fundamental education and training at both grower and chain participant level is required to generate increased understanding amongst growers as to the impacts of volatility on their business and the benefits that more stable approaches can bring.

1.2. Other Industries

~ the wool industry’s selling systems are comparatively antiquated. ~ in a number of other agricultural sectors, there seems to be a transition away from dependence on auction to more co-ordinated approaches with auction used as a clearing house for lower quality product.

The implication of this shift has been greater responsibility for specification, quality and timing of supply being assumed by primary producers. / Cost reductions and generation of efficiencies have also typically been part of the system,.

1.3. Post-farm

~ least popular were those which linked back to growers. Activities which linked closely to the final consumer were strongly supported.

Differing views exist within the post-farm sector in terms of what is important in determining sourcing criteria, or the importance of a wool’s origin in driving sales.

Of particular note and perhaps of most importance to this project was the near linear decline in interest with respect to working with woolgrowers as you move away from the farm gate through to retailers. In many instances, this late chain relationship is exactly what growers are looking for, yet these are the parties least inclined to participate.

Given this, a central facilitator is required to build the link between the on- and post-farm sectors.

Page 8 Price volatility appeared to be of less concern to post-farm participants.

1.4. Recommendations

- *Recommendation 1:* AWI should facilitate commercial activity within the broad area of demand generation. This should be focussed on targeted support of a broad range of activities and catalysing and supporting commercial participants' activity within the area of demand generation.
- *Recommendation 2a:* AWI should commission a project to map seasonal variability of wool production and key quality parameters.
- *Recommendation 2b:* AWI should commission work to examine the creation or adaptation of existing risk management tools which are more flexible in dealing with seasonal quality variation.
- *Recommendation 3:* AWI should commission in-depth work that analyses the impact of risk management on farm financial performance ~.
- *Recommendation 4a:* The key themes of 'risk proofing' production and financial performance should be developed for project assessment ~.
- *Recommendation 4b:* Contribution of AWI technologies to assisting growers in the areas of 'risk proofing' production and financial performance should be reported in fact sheets and other relevant communication.
- *Recommendation 5:* AWI should undertake a detailed analysis of grower attitudes across a range of production and market related issues to identify key points of alignment or interest ~.
- *Recommendation 6:* AWI should investigate its ability to catalyse and co-ordinate commercial parties to enable direct linkage arrangements between growers and manufacturers with respect to the commercialisation of AWI technologies and platforms.
- *Recommendation 7:* Upon receiving any proposals for projects relating to market linked activity or facilitation of commercial players, AWI should develop and complete a benefit appropriation analysis to ensure projects outcomes will provide clear and transparent transferral of benefits back to growers.
- *Recommendation 8a:* AWI should develop initiatives to work alongside key broker staff to identify which of AWI's programmes would add value for broker's businesses.
- *Recommendation 8b:* AWI should build effective education/extension programmes to work with broker staff and to equip them to take the key messages to their grower clients in a manner that helps drive both the broker and grower client businesses.
- *Recommendation 9:* AWI should clearly and consistently communicate the manufacturing and consumer benefits of using Australian wool and equip post-farm participants to take wool's key consumer benefit messages to the market place.
- *Recommendation 10:* ~ additional work would determine the drivers that initiated changes at producer and retail level and assess the applicability of those drivers to the wool industry and their fit with current supply chain participants.

- *Recommendation 11a:* Basic upskilling and education of grower group leaders should be initiated and true partnership with organisations that provide other complementary services should be developed.
- *Recommendation 11b:* AWI should consider and evaluate the analysis in project EC740 and earlier work with respect to grower groups, their successes and failure, and use that to help direct AWI policy and future directions.
- *Recommendation 12:* AWI should identify two key technologies within existing product platforms and facilitate commercial organisations to pilot an alternative demand chain approach linking those technologies back to a supply base. This would enable a ‘learning by doing’ approach to be developed and specific growers and chain members to be engaged to participate and develop the systems.

3.1 Existing arrangements in the Australian wool supply chain

Page 10 The industry can also be characterised as one where few ‘win-win’ relationships have taken place, but rather in which highly fragmented chains and adversarial relationships are the norm (EC740).

Page 12 The buyer will try to obtain the wool at the lowest price and includes lots of differing quality so that the physical parameter averages meet the specification required (McCrea et al., 1998).

Page 17 3.1.4 Deficiencies of the current arrangements

There are a number of deficiencies in the current supply chain arrangements commonly employed in the Australian wool industry. This section summarises those deficiencies identified in existing literature. One of the major deficiencies is the adversarial relationships that exist in the industry and the way the industry is looked at. As project EC740 reported:

“There is “weak connections” between the actors in the marketing system and hence lost value. To this end, it is useful to consider the Wool Taskforce’s (1999) comments:

Auction, the dominant method for transfer of ownership of raw Australian wool, has been widely criticised as a method of selling wool.

These criticisms have related to a number of issues, including:

- **Removal of diversity:** the diversity of individual wool clips is removed by auction as wool is channelled through a small number of brokers, exporters and topmakers, before diversity again appears amongst spinners, knitters and weavers (Champion, 2004b);
- **Addition of costs:** Broker costs, associated with brokers’ storage of the wool and running of the auction adds additional costs to the chain that could be overcome through direct relationships with processors;
- **Lack of communication:** Poor communication with the wool processing ‘pipeline’ or ‘supply chain’, which is largely influenced by the auction market,....this lack of communication further entrenches the adversarial ‘win-lose’ arrangement between buyer and seller
- **Poor ‘fitness for purpose’:** growers prepare wool for auction without knowing the identity of their customers and so cannot seek to meet specific market needs;
- **Price volatility:** The supply of a certain type of wool may not meet demand at any point in time and hence creates price volatility (McKinsey and Company, 2000); and,
- **Lack of price risk management:** No price risk management features are provided through auction (when used in isolation and without third party risk).

Page 21 **3.3 Summary of Key Review Findings Relevant to the Current Study**

1. The Australian wool industry is currently in a situation where few win-win transactions are taking place between supply chain participants and where the understanding of other chain members businesses is often poor;
2. The transaction of raw wool is dominated by auction selling. ... this dominance has a number of downsides for the industry;
3. ...there is a clear separation of growers, ... 'lifestyle' driven, while the other is more 'business' driven;
4. There have been numerous attempts by individual Australian growers and by grower groups, to link to downstream chain members through some form of co-ordinate SCM strategy. Typically these have failed.
- 5.... risk management aspects, there is currently no shortage of 'tools' available to growers, however their uptake is poor with currently less than 5% of the Australian clip utilizing some form of price hedging tool.
6. In 10 years the New Zealand Merino supply chain has been re-engineered into one that allows for clear communication market signals, and increased economic sustainability to New Zealand merino growers; and,
- 7....targeted marketing, R & D ,innovation ..an essential component of the New Zealand Merino supply chain.

Page 45 Opportunities for the Australian wool industry as suggested by growers included:

- Use of the clean, green, sustainable production message in marketing the fibre;
- Communication of wools attributes;
- Better communication and alliance within the supply chain; and,
- Marketing.

Page 46 **Marketing of the Australian wool clip**

Responses clearly indicated that growers strongly believe some form of marketing of the Australian wool clip should take place (see Figure 11).

Page 50 Interest in NZM type model The majority of growers (89%) responded that they would be interested in selling some of their clip via direct contracts with brands/retailers, similar to the NZM model.

Page 51 **Organisations to be involved in any alternative model**

Growers felt 'a new commercial entity' was the most suitable organisation to implement an alternative demand chain model. ~.

The organisation that growers thought least suitable to be involved in an alternative demand chain model was a *compulsory levy organisation*.

6.2.1 Post farm face to face interview quotes

Page 63 Exporter: There should be some flexibility in selling mechanism, not only auction.

Page 64 If growers decide to pay for marketing, "considering history", a new company with a fresh mind should promote. Not AWI or Woolmark.

Page 65 **Wool Sourcing** ...post-farm participants that agreed (agreed or strongly agreed) that the stated wool sourcing factors are important to them. The data provides a clear indication that quality is the

most important factor to post-farm channel participants, while origin of the wool/wool products is less important.

Page 66 The importance of the stated factors does differ slightly between the different stages of the supply chain, as can be seen in Table 31.

Table 31	Quality	Price	Consistent supply	Origin
Retailers	Agree	Agree	Strongly agree	Somewhat agree
Brands	Strongly Agree	Agree	Strongly agree	Strongly agree
Knitters	Agree	Agree	Agree	Agree
Spinners	Agree	Agree	Agree	Somewhat agree
Topakers	Agree	Somewhat agree	Somewhat agree	Agree
Exporters	Somewhat agree	Agree	Neutral	Somewhat disagree

Page 66 origin is the least important factor for post-farm participants, origin is most important for brands, the supply chain stakeholder with the best opportunity to leverage value and develop 'story' from this 'soft' product attribute.

7. Conclusions and Recommendations

Editors note: In this section the report, there is other material interspersed between the recommendations. These recommendations are the same as the ones at the front of the document so we have only included the recommendations that are directly relevant to supply chain development.

Page 90 **Recommendation 1:** AWI should facilitate commercial activity within the broad area of demand generation. This should be focused on targeted support of a broad range of activities and catalysing and supporting commercial participants' activity within the area of demand generation.

Page 90 The factor that has a major influence on grower adoption of more co-ordinated supply relationships is seasonal variation.

Page 91. Market led research and innovation

AWI have the opportunity to link product innovation to growers through some form of contract system. ~ AWI could act as a facilitator of commercial parties, bringing the technology user to the chain and linking them to a grower supply. This would ensure market pull for the technology and the wool supply.

Recommendation 6: AWI should investigate its ability to catalyse and co-ordinate commercial parties to enable direct linkage arrangements between growers and manufacturers....

Page 92 Funding of the activity:

89% of growers saying they would personally pay a fee....

Page 93 Familiarity and an apparent comfort that the current systems ...appeared to be the key drivers behind selling and risk management system choice. Conversely, limited understanding of the various alternative selling and risk management tools appeared to limit their attractiveness to growers...

Page 94 There is a gap between grower's aspirations to be linked to the chain and the chain's desire to link with growers. A facilitator is required for both transactions (commercial) and communication, including demand generation activities..

Post-farm customers appear to be equivocal as to the need to specify the origin of the wool they use, nor do they appear to be well equipped to take wool's key consumer benefit messages to the market place.

Page 93 **7.2.1. Studying existing arrangements being used along the Australian wool supply chain and the characteristics of the NZM model**

The dominance of the auction system continues and growers do not appear dissatisfied with their reliance on it.

There appeared to be strong support for an NZM type model,

7.2.2. Analysing why supply chain stakeholders, particularly Australian woolgrowers, use the current methods of wool marketing and risk management and determine the barriers to moving into alternative approaches

Familiarity and an apparent comfort that the current systems were delivering the best possible outcomes, appeared to be the key drivers behind selling and risk management system choice.

~ limited understanding of the various alternative selling and risk management tools appeared to limit their attractiveness to growers

With respect to contracts and their variants, growers repeatedly expressed concern about their ability to meet contract obligations due to changes in season....

relationship with existing brokers suggests brokers are important vehicles for driving selling and risk management system choice at the grower base...

31 of the 32 post-farm organisations interviewed believed that there was a need for demand generation activity for Australian wool.

Page 94 There is a gap between grower's aspirations to be linked to the chain and the chain's desire to link with growers. A facilitator is required for both transactions (commercial) and communication, including demand generation activities.

Post-farm customers appear to be equivocal as to the need to specify the origin of the wool they use, nor do they appear to be well equipped to take wool's key consumer benefit messages to the market place.

Recommendation 9: AWI should clearly and consistently communicate the manufacturing and consumer benefits of using Australian wool and equip post-farm participants to take wool's key consumer benefit messages to the market place.

Page 94 Compared to systems developed in some other industries, the wool industry's selling systems are comparatively antiquated. ..., and auction is now a clearing house for lower quality product.

Page 95 Three barriers to more widespread uptake of alternative demand chain and risk management models by growers appear to be present:

1. Low levels of dissatisfaction with the current system;
2. Low levels of understanding as to what alternative systems might provide; and,
3. Poor connection of 'extension messages'...

Page 96 **Recommendation 12:** AWI should identify two key technologies within existing product platforms and facilitate commercial organisations to pilot an alternative demand chain approach linking those technologies back to a supply base.

An understanding of how to generate woolgrower commitment to alternative marketing and risk management methods

Page 96 **Demonstration of benefit would appear to be the key.** Growers appear unconvinced that alternative systems deliver benefit over the currently dominant auction system.

Education and training as to the benefits of alternative systems is required.

Page 96 Of particular note and perhaps of most importance to this project was **the near linear decline in interest with respect to working with woolgrowers** as you move away from the farm gate through to retailers.

A central facilitator is required to build the link between the on- and post-farm sectors. In many instances, they appear to be looking for different things.

Page 97 **Growers are clearly concerned about the impact of environment on clip specification** and this is a significant 'stumbling block' with respect to closer linkage to downstream chain participants.