

Opinion Piece.

By Chick Olsson.

(Approved by Laurence Modiano)

Australian wool growers have enjoyed stronger wool prices since 2010. Combined with excellent lamb and sheep prices, the Australian sheep industry is back on its feet once more and looking healthy, for the moment.

It's a Wool Poll year, when AWI has to convince the nation's woolgrowers to hand over another 2 % of hard earned gross revenue for another 3 years. Some say that 2 % is a done deal. Well it's not, and if AWI doesn't try to address the demand slide and provide some research measurement by Nov 2012, then reductions in the levy or a zero vote may be a real option.

Recently, AWI has claimed in international publications (attached) that its No Finer Feeling Campaign (NFF) combined with a reinvigorated Woolmark , along with static supply has been responsible for raising wool prices from \$8 to \$15 p kg. This deserves close scrutiny.

The fundamental reasons that wool prices have risen so strongly over the past 3 years are clear: Firstly, there has been a world commodity boom. This has been coupled with major shortages of competing natural fibres such as cotton, owing to natural disasters in Pakistan. There has been an increase in demand for luxury goods in China, and a genuine shortage of all wool types.

What has defied expectations, is the fact that wool prices have also risen on the back of a record breaking Aussie dollar, not because of the dollar's strength, but because of other major currency weaknesses.

In 2010, the AWI Board Marketing Committee, identified priorities that needed urgent action and attention if we were to help lift demand for wool. Several major projects were accessed for future investment, with underlying disciplines of measurement attached. So lets look at what has happened and what opportunities still exist to increase wool demand.

European AWI director Laurence Modiano along with other directors insisted that the following must occur if we were to have impact in fashion centres of the world.

1. Immediate transfer of marketing activities run by Australians in Australia, to coal face centres of activity in various influential locations. This of course makes sense but was not supported perhaps due to the threat it represented to the employment of the local management executive.
2. Undertake investment into an overarching wool marketing campaign, engaging all retailers and consumers on many levels. As Modiano maintains, “we must get people to fall in love with merino wool again”. Subsequently, the board invested approximately \$380,000 on a significant scoping study with a small and dynamic London agency called Keep Agency, who presented one of the most impressive campaigns that the wool industry had seen. The Keep proposal still remains on a shelf gathering dust.

3. Protection of men's woollen suiting market. Two major proposals were brought before management that were designed to protect wool's share of suiting. One was supporting the return of classic wool fashion with the relaunch of James Bond classic tailoring throughout the world. Major fabric suppliers were ready to support such a campaign at an international retail level. The other campaign known as "Braveheart", involved working with major UK mills investing with other commonwealth nations with a new range of wool tweed sports jackets, to be worn with jeans to attract the younger casual market. Both of these sensible proposals are still waiting for a green light.

4. Marketing support for broader micron wools. For three years, a "Put on a sweater and turn down the heater" campaign was suggested to AWI management as an ideal way of marketing woollen sweaters (jumpers) with retail partners – a concept adopted by former President Jimmy Carter during the last US energy crisis. The Marketing committee thought they had a win here, with an excellent proposal being drafted by the Euro Agency in New York. It's still sitting there and nothing has happened.

5. Wool Champions. The greatest achievement in 2010, was working with the Woolmark London office to support The Campaign for Wool with His Royal Highness the Prince of Wales. There was a great deal of blood spilled on AWI's executive floors to get this program up and running. The result has been the most outstanding program ever to support the notion of wearing and using wool. At a cost of \$900,000 to date, this program represents excellent value in driving international exposure of wool's credentials.

6. Modiano also espoused that AWI should only have a small office in Sydney, with most resources being applied to countries that used the most wool. (Beijing, Tokyo, Moscow, London, Paris, Rome, New York) This opportunity should still be implemented and pump more funds into potential wool sales areas. Resource relocation makes sense.

As it stands, the majority of marketing funds have gone into The No Finer Feeling Campaign (NFF), which is now looking a little shaky in its ability to lift demand, even though AWI claims directly that it has (attached below). By all accounts, it has been an expensive campaign that has needed a great deal of steering. Although the imagery is beautiful, some have argued that is a return to the failed "red dress" type campaign.

Recent press statements by AWI suggesting that classical key markets have "matured" are just nonsense. Such statements suspiciously look like an excuse to cloak a clear lack of strategy to deal with sliding demand. People still love luxury and quality, regardless of where they live.

It is very brave of AWI to suggest that their \$15 million investment in NFF could have helped lift the price of wool globally.

We all need to examine whether AWI's investments are a genuine commercial success for growers? The only true measurement can be found with the value of the Woolmark and its associated Woolmark licence revenues. AWI claims that the recent spectacular wool price rises from \$8 to \$15 are owing to:

1. The reinvigoration of the Woolmark.
2. No Finer Feeling campaign and,
3. Static wool supply.

At financial year end 2010 AGM report (attached), Woolmark licence revenues received were \$10.6 million. At the end of financial year 2011, Woolmark revenues had dropped to \$7.3 million. This was a loss recorded in an unprecedented wool boom time, coupled with record levy revenues and cash reserves at AWI. This was a drop of 30 % of commercial revenues, in just one year. Is there any reasonable explanation for this?

And this is at the heart of it. Respectfully, AWI has little commercial ability. Why should they become market driven like the rest of us, whilst they are receiving approximately \$65 million a year in free money from growers and DAFF. AWI sits comfortably outside all market forces, so why engage in competitive behaviour and allow stress into the building?

What about maybe just giving some of the money back to growers and forcing AWI to be leaner and more commercially focused?

Recently, AWI ceased funding the Sheep Nucleus Flock research program, for the sole reason that there had been no commercial outcomes from such research. Now more than ever we need research focused on sheep productivity, as well as continue important industry commitments such as sheep flystrike research.

Based on AWI's logic of cessation of funding to CRC for non commercial outcomes, and further based on AWI's own poor record of commercial delivery, should then AWI also no longer receive any further levy or Government funding based on its prescriptive remedy for the CRC? Has AWI ever in living memory produced one successfully commercial product that has rocked the industry, even after spending over \$500 million in levy and Gov't revenues since 2003? Has the Sheep CRC ?

The AWI sponsored "Shower suit" in Japan was a nice little project, but wool nylon blended business suits were not invented by AWI, only resurrected for a year or two and then abandoned again. Some of the work that is being done with Merino wool in the sports sector is excellent as is the "sleep with wool" research. The "Mother and Baby" wool campaign looks promising and deserves further support, and of course, the ongoing work being done with "The Campaign for Wool", especially in London, is outstanding, but that is probably where it ends. All of the above would add up to no more than about \$5 million spend per annum, so what about the other \$60 million plus received by AWI every year?

As a prime example of ongoing commercial research failure, from 2005 till 2012, AWI has made 7 major public announcements that it would produce commercial and useful mulesing alternatives in the marketplace as a matter of priority, usually placing a date on achieving such goals. Even in 2011, AWI was still publicly stating that it would have a new mulesing alternative registered and ready for the market in 2012. Eight public announcements, none justified in their content.

Who else will invest in mulesing alternative research if AWI continues to claim to have found the answer?

Other instances of possible failure are apparent, especially in delivering more shearers and shed hands, and funding wild dog research (AWI is now providing funds to purchase poison baits?) representing little by way of results orientated transparency. Again what are the real outcomes?

Even the legislated test requirement of “market failure only investments” is failing at AWI.

It seems growers still desire to have a peak body, even with the knowledge that our industry has spent billions of dollars on marketing and research, and yet the Australian wool industry has shrunk to a flock size of 70 million sheep, with half of those sheep no longer needed for wool, but now raised for meat.

Market purists can easily argue that wool industry peak bodies have in fact done more overwhelming harm than good from the inception of the first levy. From a destructive reserve price scheme, to a wasteful red dress debacle, to a mad court case against fringe welfare groups, to a futile attempt to ban mulesing, no silliness has been untouched in our history.

So how will our wool industry research and marketing body react, and how will they plan to convince growers that AWI deserves another \$200 million from the long suffering back pockets of woolgrowers and overtaxed Aussie taxpayers?

Regardless, our once great industry has shrunk to now only providing 1 % of the world textile market with our beautiful natural fibre.

So it is only natural and appropriate to ask, “what have the levy’s ever given us?”

Charles (Chick) Olsson (AWGA)
Director 0403045664. (7.6.12)

FINANCIAL SUM

REVENUE FOR 2010/11

Total revenue for 2010/11 was \$72,698,000, compared to \$62,437,000 in 2009/10. Sources of revenue are shown in the table below.

	2009/10 \$'000	2010/11 \$'000
Wool levy	35,319	47,026
Government contributions	10,483	11,342
Licence fees	10,606	7,380
Interest	2,713	4,413
Sales of goods and services	1,254	783
Royalties	1,299	1,410
Rents and sub-lease rentals	74	187
Other operating revenue	92	21
Other income	597	136
Total revenue	62,437	72,698

http://internationalistmagazine.com/Trendsetter/Trendsetter_2012_march14_more.html and <http://internationalistoftheyear2011.blogspot.com.au/p/rob-langtry-chief-strategy-and.html>

Trendsetters: Rob Langtry of Woolmark International Shares the Strategy of an Ingredient Brand

Rob Langtry is a marketing hero. As Chief Strategy and Marketing Officer of Australian Wool Innovation (AWI), he can be credited with revitalizing the Woolmark global certification standard and repositioning wool as a desirable ingredient in luxury fashion. AWI now services a global supply chain and is publicly supported by such iconic brands as Missoni, Benetton, Armani, and Zegna. Although Australia has led the world in the production of fine wool used in fashion apparel for more than 200 years, the industry suffered a dramatic decline beginning in the mid 1990's when the Australian Government reduced its involvement in wool and active marketing of the fiber ceased. The increased production of synthetic fibers caused a decline in wool's share in fashion apparel. Woolgrowers then saw 30 years of static prices and a decline in flock size from more than 200 million to less than 70 million. Enter Rob Langtry.

He launched an integrated campaign, "Merino. No Finer Feeling," to the trade in August 2010 and to consumers in September 2010. The response was rapid: trade confidence grew and consumer demand escalated. With a static supply of wool, the price of wool increased to \$15 per Kilo from the \$8 base level that had characterized the average price for a decade. Although Rob makes his role sound easy, he has overcome numerous marketing difficulties. He says, "As an ingredient or component brand in luxury apparel, wool has probably the most complex supply chain I have ever encountered and its challenges are monumental. We service partners that range from growers in distant, difficult-to-reach areas to processing and manufacturing plants located in regional China, India, Turkey, Vietnam and Eastern Europe to brands that occupy the number one high street addresses in New York, London, Paris, Milan, Shanghai and Tokyo. This means global thinking is a cost of entry and long-haul travel (sadly) a cost of doing business."