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## Losing the thread



*NEW Zealand leads the way in producing merino wool clothing for the great outdoors. It's an \$800 million market that Australia should have cornered, writes **JASON MURPHY**.*

FORTY metres above the ground in China's Guangxi province, a rope is tied to a small metal hook driven into a limestone cliff. Hanging from that rope is Queensland rock climber John O'Brien. It's a cloudy 20 degrees in this jungle-ridden part of southern China and he's been clinging by his fingertips from various stunning outcrops for a week. In which time he has not washed his clothes. "Laundry chores don't feature in my ideal climbing trip plan," says the wiry 50-something.

"Neither does getting cold and wet and turning up for dinner in smelly clothes."

O'Brien is not your bog-standard outdoors type. He wears his outfits with panache and even runs a blog with the subtitle Climbing and Style. Poised halfway up the limestone cliff in China, he's wearing a fabric called 28-gauge circular knit merino, or T-shirt knit merino. It's just wool, but thanks to a scientific breakthrough that makes it less scratchy, it's not like wool at all. The breakthrough is simple, really: choose thinner wool that bends more easily, and the fabric feels softer. Over the past two decades the product has become one of the most exciting for the makers of wool and of outdoor gear. It looks set to make the leap from polar expeditions and ski slopes into the world of fashion. In the process, those who lead the charge will likely get very rich.

The godfather of the merino outdoor wear industry is a gregarious Kiwi by the name of Jeremy Moon. Tanned, relaxed and with the shaggy hair of a rebellious 14-year-old, Moon has a fondness for the philosophy of Deepak Chopra and the Dalai Lama, but he is no starry-eyed naïf. He runs Icebreaker, a New Zealand-based company with a global footprint and sales of NZ\$173 million (\$151 million). Moon turned a chance meeting with a merino farmer in 1994 into an operation with a presence in 44 countries. He still owns about 65 per



# AWGA - News Update

cent of the private company, much of the balance held by other New Zealanders who got in on the ground floor.

Moon has just swaddled his baby son in T-shirt style merino at his home in Auckland when he talks by phone to the *AFR Magazine*.

"I think it's brilliant. It's perfect for babies," he enthuses, proud of the category he fathered.

"I'd estimate the total [global] merino outdoor market to be worth about \$800 million. When we started 18 years ago it was nil."

## Room to grow

Six years after opening the first Icebreaker store in the United States. Moon believes there is huge scope for growth. He shows the scale of his ambition when he talks about developing the market in North America and Europe, rhapsodising about "slowly winning over hundreds of thousands of customers a year".

Merino outdoors wear is not cheap to make, but margins are healthy. Icebreaker sells some hoodies for upwards of \$289 and leggings for close to \$100. Other outdoor brands have seen the value and are matching Icebreaker step for step. Kathmandu is among them. It has added merino V-necks, hoodies and zip-through tops, even underwear. A basic merino singlet from Kathmandu sells for \$120.

If any nation ought to have been perfectly placed to dominate the T-shirt knit merino market, it was Australia. We knew the power of the sheep, having happily ridden it to wealth during the great wool booms. We were also involved in the early development of the technology. But we let the latest merino boom slip. Icebreaker, Macpac and Kathmandu are all from New Zealand. One of the other main brands, Smartwool, is American. It started out making socks in Colorado before being taken over by The Timberland Company in 2005. Australia has a small handful of brands making merino outdoor wear, such as I/O Merino, a venture of the Michell family, one of Australia's biggest woolgrowers. But none have the scale of their Kiwi or American counterparts.

As to why the Kiwis beat Australia to a market that could – arguably should – have been ours, the story is complex, ranging from chutzpah to lost opportunities and marketing failures to crucial differences in the way the wool sectors of the two countries operate. Having missed out on the merino outdoor market, Australia has a second chance as T-shirt knit merino enters the broader world of fashion.

In the early 1990s, as demand and prices for wool were slumping, the federal government funded the CSIRO in the regional Victorian city of Geelong to create new wool products. Scientists made some crucial discoveries about measuring and selecting tiny fibres from sheep.

David Evans was one of those scientists.

"There was a lot of fundamental work done with actual measurements on the fibre and neurological measurements using needles on the skin to establish the critical fibre diameter distribution," says Evans, retired but still enthused by the research. The width of a wool fibre is measured in micrometres – referred to as microns. Wool thicker than 22 microns is stiff and feels scratchy, but if it is thinner than 18 microns, it will bend when it touches human skin, meaning the fabric feels soft.



# AWGA - News Update

## Contract conflicts

Evans helped develop a fabric called Sportwool that combined polyester and fine merino wool in a way that gave it excellent sweat-wicking properties, making it perfect for sports. Testing at the time showed that Sportwool kept athletes cooler and drier than a completely synthetic product called Coolmax. Australian athletes wore Sportwool at the 1998 Kuala Lumpur Commonwealth Games, but not at the Sydney 2000 Olympics, where its use would have breached a contract with Nike, which supplied uniforms made out of Coolmax. Australian wool was used for the ribbons on medals, athletes' non-sporting uniforms, and bedding in the Olympic village – but not for the sportswear.

"It was expensive to produce and it sold at a premium," Evans says. "I personally feel rather gutted that it was never as successful as I think it should have been." The marketing effort failed at the first hurdle.

"No patent was taken out for Sportwool, which was a tragedy."

A search of international patents reveals one for a product called Sportwool, involving layers and mentioning merino wool, held by several Britons, including a professor of textiles at Bolton University in Greater Manchester.

Evans laments the loss of any early mover advantage the CSIRO research might have given Australia.

"I can see the New Zealanders have marketed their Icebreaker very well and obviously they have put a lot of money into it. I'm not sure where they get all that marketing cash from, but they've done it well. Australia could take back that initiative."

New Zealand's marketing efforts for its T-shirt knit merino are a textbook lesson in how to do it. By way of example, in 2010 an umbrella company called New Zealand Merino took a select group of industry players to Silicon Valley. The aim was to showcase the innovation behind its products in a place where creative thinking and risk-taking are the norm.

As one employee stalked Apple founder Steve Jobs in a bid to convince him to try a merino version of his famous black turtleneck, New Zealand Merino was sprucing up a rented space in a retail area in Palo Alto, the suburb that hosts Google and Facebook. It kitted the space out with New Zealand food, decorations and traditional Maori dancers, and hosted a barefoot "thinkering" session for five of its best brand partners – Ibex, Icebreaker, John Smedley, Johnstons and Smartwool.

## Beautiful New Zealand

Stanford University's Professor Baba Shiv, an authority on emotional branding and marketing, was so impressed that he wrote about it.

"To evoke people's positive perceptions of New Zealand as a beautiful, natural environment, the team covered the floor of the reception area in real grass that led to a sand beach, and everyone was encouraged to leave their shoes at the door," wrote Shiv.

The event was crucial in helping the Kiwi companies work out how to approach the US market and create an identity for their merino products.



# AWGA - News Update

While New Zealand was testing boundaries in Silicon Valley, Australia was trying something that would make at least one woolgrower furious. Australian Wool Innovation (AWI), owner of the Woolmark brand, is a not-for-profit company that invests in research and development and marketing for the local wool industry. In December 2010 it launched a three-year marketing campaign with the tagline "Merino: no finer feeling". Placed in global fashion magazines such as *Vogue*, *GQ* and *ELLE*, its advertisements featured a model in a beautiful dress standing in front of a merino sheep.

Chick Olsson, a former president of the Australian Wool Growers Association, was so angry that he wrote an open letter about wool marketing and published it on the internet.

His main beef was that generic advertisements for wool do not work, and had been shown in the past not to work. He pointed to the millions of dollars the peak wool body had spent in the mid-1990s on ads that ran in Europe, featuring a woman emerging from the sea in a red dress. The campaign coincided with a crash in the wool price, and some in the industry have pushed for more clearly differentiated marketing ever since.

"It is apparent that the lessons of the past are being disregarded by AWI/Woolmark," wrote Olsson.

"The current international multimillion-dollar 'No Finer Feeling' wool advertising campaign is having little impact on wool demand, [and is] now being dubbed sadly by some as 'No Finer Failure' .??. Woolgrowers made it clear that such use of levy funds for generic advertising was a no-go zone. Groundhog day has returned, as AWI invests heavily in another 'red dress' campaign."

To put such complaints into perspective, it's worth pointing out that Australia still dominates the global wool apparel market, with our wool accounting for about 85 per cent of all wool fibre used in clothes. Shorn from an Australian sheep, in an Australian shed, by a bloke in a blue singlet. But, the critics say, that doesn't mean demand is as good as it could be, or that opportunities haven't been missed.

Olsson's family runs a few thousand head of merino sheep on a property near Goulburn in NSW, home of the Big Merino. A former board member of AWI, he is still despondent about the marketing of wool here.

"The wool board has made a big mistake in trying to stimulate woollen suit demand; the action is with next-to-skin wear," he says. "All of us that are growing soft wool for the suiting market are facing this crisis of demand that no one wants to wear wool suits any more. The question is where are you going to put your wool? It has got to be performance wear."

The way Australian wool is sold does not help, he says, and differs markedly from the situation across the Tasman. In Australia, bales of wool are sold at auction from farmer to middleman, with the farmer not knowing how the fibres are used after that.

"As much as I love my fellow wool growers, we have very little market intelligence as to what the world's doing. We always find out two years after it has happened," says Olsson.

In New Zealand, a different model exists, one that was pioneered by Icebreaker. Farmers there have long-term contracts with companies such as Icebreaker, and make wool to meet their specific criteria. The farmer knows, for example, that the wool will go to make next-to-skin garments for the ski industry, and can focus on attributes of wool that will satisfy that purpose.



# AWGA - News Update

There are benefits for the end user, too. One of Icebreaker's marketing claims is that it can source the wool in each garment back to a specific animal via what it calls a "baa-code". For the trouble, farmers are paid above the odds. Icebreaker raised the price it paid for its wool by 29 per cent in its 2012 contract.

"Kiwis are very clever," says Olsson, "mainly because it's a small island, they just don't have the political problems we have here with agriculture."

While Olsson is prepared to speak out, others are wary of being branded trouble-makers. AWI has an annual budget of almost \$100 million, about half of which comes from a levy on growers. How much of the money is spent on marketing and how much on research and development is decided through a poll of wool growers, held once every three years. Growers also vote on the size of the levy they pay to AWI. This is where tensions get high.

In 2012, more than 10 per cent of farmers voted for there to be no levy, 29 per cent voted for it to be 1 per cent of revenue and 53 per cent voted for it to be 2 per cent, which is where the levy was set. Evidently, some growers feel they are not getting their money's worth.

Rob Langtry has been AWI's head of marketing for the past three years. A former marketer with Colgate, Rothmans and CIS advertising and content development, he concedes the sales spiel of the past decade left a lot to be desired.

"There had been a period of probably over a decade where we as an industry hadn't been talking to consumers or really to the apparel trade," he says. "There was a disconnect between the woolgrower and what we were doing in Australia."

Identifying the problem is easier than coming up with the solution, in part because the wool-growing community is divided, which means getting consensus can be slow.

"We needed to form a plan that had buy-in across what was a very complicated supply chain," says Langtry. "We needed to have agreement that, bottom line without a dialogue with the consumer, we weren't going to be able to even sustain or grow demand for wool."

While positive about the opportunities ahead, he hints that he has been rubbing up against organisational and cultural inertia.

"Some groups get it innately and the more they are willing to travel overseas and look at the supply chain and what happens with the wool, the more easily they understand why they are growing what. There are other areas where there's still some work to be done."

Langtry and his colleagues at AWI consulted widely before developing their next three-year strategic plan. They plan to give greater weight to marketing in the coming years, and have also come to another conclusion. With the market for outdoor wear seemingly stitched up by the Kiwis, Australia's successful merino brands may have to look elsewhere. "We seek to position wool to be at the pinnacle of the fashion industry," the plan proclaims.



# AWGA - News Update

## Work to fashion

There are precedents for crossing over from utility into fashion, the most famous being denim, which was designed for heavy work in industry and the fields, but took off as fashion wear in the cities in the 1960s. Shoes designed for basketball and athletics also crossed over as Converse and Nike became household names.

Perth fashion designer Azulant Akora was highly commended at this year's Australian Wool Fashion Awards for a dress made of T-shirt knit merino. The long, flowing dress was red, of all colours.

"I had never used merino wool so when I did a bit of research and looked into the fabric, I fell in love with it," says Akora, who previously worked mostly in silks and chiffons. She likes the stretch and fit of the fabric. "When I stumbled across this type of wool, it ticked all the boxes. It was actually the best fabric I'd ever used." She is working on a new collection of pieces made up entirely of T-shirt style merino. "That's how much I've fallen in love with the fabric."

Langtry points to mother and baby as another promising growth area, in light of a trend to spend more on clothing for little ones. China, where the little emperors of the middle and upper classes are routinely lavished with expensive goods, is of particular interest. One woman who is already riding this wave is New York-based Australian expatriate Raegan Moya-Jones, who has found success selling \$60 merino baby swaddles through her company Aden & Anais.

"We effectively invented a new fabric by combining a muslin weave with merino," Moya-Jones says. "Muslin merino is desirable for all the same reasons other merino fabrics are: it's natural, renewable, soft, breathable, easy to care for."

It sounds promising – provided the Kiwis don't get there first.

<http://www.queenslandcountrylife.com.au/news/agriculture/livestock/sheep-wool/losing-the-thread/2669730.aspx?storypage=0>