

7th World Merino Conference, Perth, Western Australia, July 2006

This conference was well attended from around the world, including about twenty visitors from South Africa. Interesting presentations by authorities in Merino related industries left the delegates with a positive outlook on the future for wool and Merino farming. Unfortunately no detailed / written conference proceedings were available for publication, but the following two papers received should be of interest to our readers.

Edited presentation by Laurence Modiano

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I have travelled half way around the planet to make a ten minute speech. For me they are ten of the most important minutes in my career. Most of my family's money is invested in wool, and has been for 50 years. We are totally dedicated to your fibre. Our machines cannot be used for anything else. To that extent we are more dependent on growers than they are on us. My only motivation is to express some ideas which I hope will lead to the betterment of our industry. We have precious little time to take our crippled, fossilised industry and prepare it for change. Unless we do, we are destined to become an insignificant cottage industry.

The world continues to change at lightning pace, yet we in wool have failed to evolve with it. Volumes have dropped, margins have collapsed, profits have disappeared. It offers scant opportunities for young entrants. Wealthy young consumers cannot desire a fibre they know nothing about. If we want to survive and even thrive, we have to learn the lessons of the past and create a better future. Today. Now.

The Test Marketing Project has given the whole industry more hope than it has enjoyed for a considerable time. It proves that we can shove narrow self-interest behind us and unite in a common cause to the benefit of all. The momentum we have created must be followed through with money and ideas. We must strike while the iron is hot. The TMP, if nothing else, will have taught us a great deal about what works and what doesn't.

Retailers and marketing executives all over the world tell me what a brilliant story we have. The CEO of one of the largest marketing companies in the world had this to say to me: You have a timeless but sadly forgotten super-fibre. You have to communicate that wool is natural, renewable and sustainable. That it is elegant, beautiful and sexy. That it is the foundation

of fashion. That it has launched careers and fashion styles throughout history. The owner of a large UK retailer told me: Wool needs to differentiate itself. If it is more expensive than other fibres, it has to sell its own features and benefits. Above all, it has to address wants as well as needs. It has to be used in partnership with products which create emotions.

The philosopher Plato said: 'Those who tell the stories rule society.' Images rule desires, desires rule actions. We have to tell our stories, but there are two very important ingredients: the skill of the storytellers and the money which will open doors for them.

AWI, which has spent a reputed \$300m, mainly on R&D, since its inception, without many memorable innovations to show for it, has now decided to turn to marketing, even though there isn't a single marketing person on the Board and Executive team. Taking on marketing people isn't enough. The organisation has to be talented from top to bottom. On-farm research is essential, but it becomes a swanky extravagance when world demand for wool continues to plummet. As I see it, AWI receives far too high a proportion of levy income

The diamond monopoly De Beers is based in South Africa, but its sales and marketing head office is located in London. In 2006 they will spend \$US180m on marketing and promotion in 18 languages, in 15 countries. Their Group MD states: 'Brands are a catalyst for growth. We want to work in partnership with our clients to create a dynamic, competitive and customer focused diamond industry.'

Australian growers vote in November to decide on the amount of levy they pay to AWI. The problem is not so much a question of how much to raise, but far more how it is spent. I recommend an approach to government requesting the transformation

of AWI into a professional R&D/marketing body with worldwide reach, to be co-funded by growers, exporter/processors and all other wool dependents. Together we would elect a small but highly experienced supervisory board, representing the best of the global wool and marketing industry. It will be responsible for allocating funds and appointing executive directors with the essential technical, marketing and retailing skills, who would themselves work with local experts in each target zone. Wool's principal markets are in the wealthy countries of the North. That is where the executives should be based. Away from politicians, away from bureaucrats, away from producers and close to the decision-makers and consumers who can make wool viable for all who depend on it for their livelihoods.

Key countries like China, Italy and India refused to co-fund the Test Marketing Campaign. The only way to catch them is to impose a buyer's levy. Those grower leaders I have spoken to appear to accept this as a valid means of raising more money. Others may argue it is simply another tax on the grower. I assure you it is not. It should be raised in all grower countries to a level which ensures sufficient funds are contributed by all wool dependents, no matter how unwilling.

Australians have every right to be proud of their product, but it is time for us to cease marketing wool as Australian. No shopper enters a store looking for wool from one particular origin. It is completely absurd to market a fibre origin. If the product is desirable, it sells, no matter where it comes from. Indeed, one very large UK wool retailer does not even want the word 'Australian' on its garments; PETA has seen to that. Other grower countries want to contribute to marketing and have the funds to do so. Why turn them down? Any uplift in demand will benefit growers worldwide, so why should Australians subsidise everyone else? Wool is a worldwide business. It should be funded and managed as if it were one.

The hardest thing in the world is to let go. You have been devoting an important slice



of your hard-earned income for seventy years with precious little to show for it. The system of controlling Australian money, by Australians on behalf of Australians, to develop and sell your fibre to a market which lies on the other side of the globe, has failed you. Continue, and we all face the prospect of falling off the cliff. But if we learn to work together, we will have the experience, the passion, the money, the contacts, the unity of purpose and the strong, single voice required to tell our stories to a world.

I am convinced that wool is an undiscovered goldmine. When women discover the

luxurious and sensual pleasures of a fine Merino jacket, when men discover the natural elegance and delight in a pair of extrafine Merino trousers, when young people discover how wool can play a key role in saving the planet, when sportspeople discover there is a fibre which can keep them cool in Summer, warm in Winter, dry and microbe-free, when exorbitant energy prices force home-dwellers to turn down their thermostats and discover the pleasures of a voluptuous wool jumper, when mothers discover that soft merino clothes help their babies and infants to live and breathe more healthily, when retailers and brands discover there is a product

which can differentiate their offering from the morass of mediocrity, when the world discovers that what you put on your body is as important as what you feed it with, then we shall begin to reap the benefits of our commitment to an idea we have long believed in, but simply failed to convey to the world.

We have to save our industry. We owe it to ourselves to give it our best shot. The clock is ticking and day is turning into night. The power is ours to decide whether we are there to greet the dawn.

Carpe Diem!

Grab the Ram by the Horns

Excerpt from presentation by Mark Rodda, Elders National Wool Manager

It goes without saying that all players in the Australian and global wool industry are facing challenging times – seasonal, operational or financial. Despite these challenges I believe that there are many ways for us to better understand our businesses and work together to increase our respective productivities to ensure our operations remain viable and more prosperous in the future.

Over the last 25 years the productivity of the average wool producer has grown by only 0.8 per cent per annum. It is an unfortunate fact that the industry's real terms of trade are in fact declining. Over the same period, beef producers have increased productivity by 1.25% p.a while the cropping industry has increased by over 3% pa. Compared to other sectors in Australian agriculture, it is fair to say that the wool industry must aim much higher in terms of productivity.

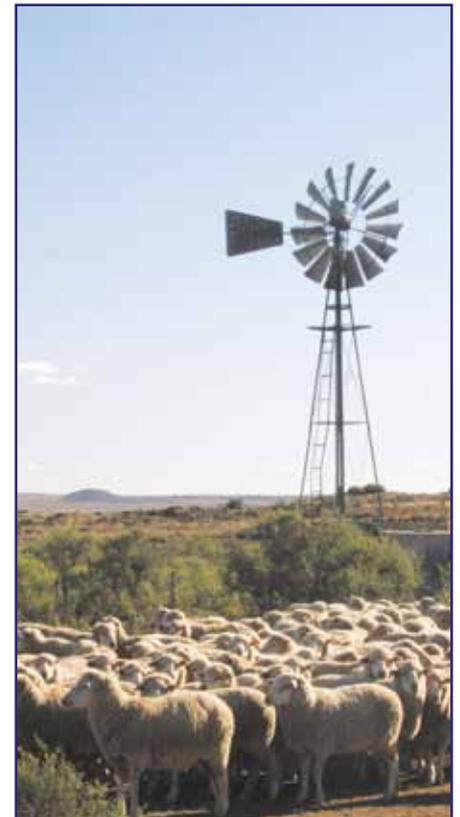
One of the most important examples of productivity and profitability is represented in the table below. It demonstrates the returns from wool per head by micron of the sheep over the past ten years.

As the chart shows, over the past ten years, a 21-micron wool producer, cutting 6.5 kg per head has averaged \$29 per head return from wool alone. At the same time, an 18 micron woolgrower, cutting 3.5 kg per head has averaged \$27 per head for wool. It is important to note that these figures do not take into account the returns from excess stock and meat sales. While these are only averages, it is critical that producers know where their individual operation fits into this table, in light of their environmental surrounds, management capacity and

ability to economically alter their situation if they desire.

As an industry, we are blessed with clever research and development work that is easy to access and is able to offer all of us plain and logical ideas on how we can increase our enterprise's productivity. The top 10 per cent of sheep producers in Australia have analysed their business and the environment in which they operate and are making significant productivity, and ultimately profitability improvements – despite the seasonal challenges faced.

Whilst the consumer demand for wool and other natural / noble fibres looks strong in the future, we simply can't rely on prices to save us. Wool has historically been one of the most volatile commodities traded in the world – and will continue to be. Individually, we must "grab the ram by the horns", invest in areas for productivity gains, and actively manage our price risk.



10 Year Average		From 1995 to 2005						
Clean c/kg	1222	984	804	704	673	623	600	572
Fleece, Pieces & Bellies	770	620	511	447	427	399	384	366
Cut per head / Micron	18	19	20	21	22	23	24	25
2.5	\$19.25	\$15.50	\$12.76	\$11.18	\$10.68	\$9.97	\$9.60	\$9.15
3	\$23.10	\$18.60	\$15.32	\$13.41	\$12.82	\$11.96	\$11.52	\$10.98
3.5	\$26.95	\$21.70	\$17.87	\$15.65	\$14.96	\$13.96	\$13.44	\$12.81
4	\$30.79	\$24.80	\$20.42	\$17.88	\$17.09	\$15.95	\$15.36	\$14.64
4.5	\$34.64	\$27.90	\$22.97	\$20.12	\$19.23	\$17.94	\$17.28	\$16.47
5	\$38.49	\$31.00	\$25.53	\$22.35	\$21.37	\$19.94	\$19.20	\$18.30
5.5	\$42.34	\$34.10	\$28.08	\$24.59	\$23.50	\$21.93	\$21.12	\$20.13
6	\$46.19	\$37.20	\$30.63	\$26.82	\$25.64	\$23.92	\$23.04	\$21.96
6.5	\$50.04	\$40.29	\$33.19	\$29.06	\$27.78	\$25.92	\$24.96	\$23.80
7	\$53.89	\$43.39	\$35.74	\$31.29	\$29.91	\$27.91	\$26.88	\$25.63
7.5	\$57.74	\$46.49	\$38.29	\$33.53	\$32.05	\$29.90	\$28.80	\$27.46
8	\$61.59	\$49.59	\$40.84	\$35.76	\$34.19	\$31.90	\$30.72	\$29.29
8.5	\$65.44	\$52.69	\$43.40	\$38.00	\$36.33	\$33.89	\$32.64	\$31.12
9	\$69.29	\$55.79	\$45.95	\$40.23	\$38.46	\$35.88	\$34.56	\$32.95