

# Comparative wool selling systems in New Zealand

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**How much value is added  
back to strong wool  
growers through branded  
contracts?**

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## ***Executive Summary***

Wool is one of the oldest commodities still in existence today, and indeed man has used wool for over 10,000 years as a source of food and clothing. However with the advent of the synthetic industry with its vast investments into research development and marketing; wool has struggled to compete on price and sheep numbers have declined around the world.

Since 2009 several new brands have been developed in the wool industry in New Zealand and there has been some debate around single selling systems and attempts to restructure with the Wool Partners International initiative.

I have embarked on a journey of discovery to find out what is the impact of the strong wool brands within our wool selling systems. In the process I have gained an overall perspective of what drives value behind the farm gate and beyond in the marketing of our strong wool.

It all starts behind the farm gate with the quality of the clip and when I consulted a small group of Kingcountry farmers it didn't surprise me that although they understood what good clip preparation was they felt they were not being rewarded for their efforts. What's wrong with our systems then?

The NZ wool selling systems fall into two main categories; the auction and private sales. The only impartial figures we have are supplied by the Economic Service which puts the auction at 46% of sales and private sales at 41%, staple wool at 13%; fine wool is included in these figures but only accounts for 8% of the clip and over half is sold in long term contracts. Private sales fall into three categories – merchants procuring wool direct from growers,

brokers buying back, and long term and branded contracts. Leaders in the industry indicated that merchants procuring direct from farmers accounted for approximately 35% of the strong wool clip add this figure to auction 46% (which is 89% strong wool) and approximately 75% of strong wool is being sold through a commodity or supply chain.

When I looked at supply chains I discovered they could be very long, because of this it is hard to track wool and insure we can maintain its integrity, indeed this has been a problem our companies have grappled with for years. The length of the chain also means any market fluctuations are amplified when they pass back to the grower end creating volatility.

Only a small proportion of our strong wool clip (unknown quantity) is sold in long term contracts or branded contracts. This way of marketing the wool is different to commodity trading in several ways. The wool buyer establishes a relationship with businesses further down the chain at the manufacturer end and negotiates a contract with clear specifications which can be matched with the appropriate grower. In this arrangement both parties benefit – the manufacturer is supplied with quality NZ wool and the grower is clear about price and requirements. These companies are providing growers with a closer link to the customer and a possible pathway to communicate his costs and margins required, making his business viable. The grower knows who is handling his wool, what its being used for, and has a direct connection with the market.

If more volume of wool was sold this way it could have a more positive impact on price as wool is diverted away from the auction system.

An extra dimension is added to long term contracts when it's attached to a brand with a unique value proposition. Because of NZ wools reputation in the world market most of our

brands have wool quality built into the story but other brand features capture the many attributes (utility) and the emotional connection or the feel good factor of wool and the NZ sheep farming family, hence there is a great deal of potential to differentiate. Maintaining consistent quality through scrupulous clip preparation is vitally important to all our brands.

The niche nature of strong wool world-wide means that New Zealand carpet brands can differentiate the market they choose to target. At the consumer end a targeted market could include a middle to upper income group who have an emotional connection to environmentally friendly products. Some of our NZ companies have formed successful partnerships with marketing, manufacturing and or retail chains to develop specific brands with utility and a story attached to add further value. These partnerships help to create scale and open distribution channels in the market place.

The NZ story is a very marketable backdrop to all our brands. We have a reputation for being clean and green relative to most other countries; high animal welfare standards and sophisticated farming systems coupled with free ranging animals; but I believe we can't afford to be complacent for successful brands must fulfill their promises or they won't be sustainable. Are our customers willing to pay a premium for this story? There are some in the industry who suggest we haven't put enough emphasis on the safety and efficacy of our products and that more effort is needed to tell a consistent and compelling story.

Brand awareness and success in the market place can be hard to quantify as some of our strong wool brands are recent initiatives they are still establishing themselves in the market place. It takes patience, investment persistence and time to develop brand awareness but ultimately success is determined by the financial rewards to the companies and a premium paid to the grower. This is happening in some situations but more work needs to be done to

create additional contracts and encourage more NZ growers to uplift them. I also think growers should consider long term which of our selling systems will reward a quality product because quality is our point of difference in the market place.

Are there too many brands? If there is any confusion the market will dictate who survives which is ultimately influenced by the compelling story of the individual brand. It is important though to consider the time and money involved in creating, establishing and maintaining a brand. Continual investment in brand innovation could be a challenge for NZ companies and growers alike but the key is to link with the re-seller in order to leverage distribution and create premium values.

Are there more opportunities to differentiate? In the strong wool industry we have only touched the tip of the iceberg as our focus has revolved around carpet and related products. There are numerous opportunities to create various textile products to showcase the many attributes of wool such as its ability to breath, absorb sound and impurities from the air, durability, inflammable and indeed this is already in the pipeline in the aviation and bedding industries. In May 2010 a number of renowned architects from around the world were invited to NZ to learn about the potential benefits of wool in creating interior textiles. These people were astonished by the many possibilities that wool presented and were inspired to create new innovations.

NZ based Wool Industry Research Limited has a number of research and development projects underway to increase the competitiveness of NZ wool. Importantly the consortium is encouraging their use by commercial companies and marketing programmes and this link is critical to develop brands and target markets in order to absorb significant volumes of product. The Campaign for wool is all about creating awareness for wool and its attributes

globally to enable woollen products and brands to take advantage of that awareness creation. The idea is that only high end market brands who are licensees can take part and are able to come in with their brand using their relationship with the campaign.

To conclude what I have discovered is that branding is part of a complex system, not well understood by the wider industry including the growers. I believe branded products and long term contracts have the potential to take our strong wool industry away from the commodity basket and eventually bring significant long term value back to growers so that they are rewarded for their efforts. It will take on-going investment and commitment to maintain the brands we already have in place but also we all need to invest in other innovative products to broaden the utility of our fibre. The strong wool industry has a great future with amazing potential that we should pursue this is essential if we are to maintain the sustainability of sheep and beef farming in years to come.

## ***Introduction***

The purpose of this report is to determine how much value is added back to strong wool growers through branded wool contracts, compared to other marketing options.

In New Zealand wool production has declined steadily over the past ten years to a point where Beef and Lamb NZ predicts the 2012-2013 season to be 172,600 tonnes. There has been much discussion and indeed reports written about the demise of the industry and suggested strategies that have failed. Sheep and Beef farming systems have come under pressure from competing land uses such as dairying, increasing farm costs and inflation. There is growing concern that if this sector does not maintain consistent profitability it will be difficult to attract investment in Research, Development and people skills.

Globally strong wool has become a specialty product within a very competitive mainstream textile market where price and processing efficiencies are dominant factors. This is apparent in the U.S where only 2% of carpets are made with wool as an ingredient and there is a growing awareness that at least one generation is oblivious to the benefits of the wool fibre. HRH the Prince of Wales, patron for The Campaign for Wools states that *“wool is one of the most environmentally friendly and sustainable of fibres. At a time when concerns about landfills occupy us all, why on earth are we turning our backs on wool?”*<sup>1</sup>

Worldwide wool is recognised as a luxury fibre and NZ’s wool is of high quality “strong, white and bright” but has it realised its true value behind the farm gate? Currently growers are serviced by a number of large to smaller private wool merchants, brokers and exporters

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<sup>1</sup> Prince Charles (2010), Campaign for Wool, [www.campaignforwool.org](http://www.campaignforwool.org).

who market the wool either through the Auction system or through private contracts. Wool is essentially a commodity largely exported from NZ in its raw state estimated earnings for 2011 were \$715 million; value add products such as wool carpet, rugs and other woollen products earned \$202 million – about 22% of total earnings at \$920 million.<sup>2</sup>

In recent years several brands have been developed by NZ companies to market NZ's strong wool attributes and or authenticate the fibre. These brand initiatives may have raised the wool quality standards but it is unclear if this has yet to culminate into added value back to the grower.

This report will examine the role branding plays in the strong wool industry verses other selling systems; are these brands actually adding value at the farm gate and how much differentiation is there between brands. Is the NZ wool story important enough to our customers to encourage them to pay a premium for higher quality wool? Are there now too many brands competing with each other and compromising market value at a higher level? Would more value be created if NZ strong wool was sold under one brand NZ Inc.?

Adding value also means providing a quality product so it is important to determine the quality and presentation of the clip by observing what is happening behind the farm gate.

The approach to the consultation phase of this research project has been to consider from the farmer's perspective if value can be added to wool using best farm practices and

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<sup>2</sup> Beef+Lamb NZ Compendium of Farm Facts, page 5, 36<sup>th</sup> Edition, April 2012

determine if the current marketing options, in particular selling under a brand, will bring more value back to their farming businesses.

## ***Method/Process***

To answer my question how is branded wool adding value back to the strong wool grower verses other selling systems; I took a qualitative approach to my research and interviewed eighteen people from the wool industry. The interviews were recorded in order to analyse the material later. All the interviewee's were asked a set of nine questions ,however when consulting with specialized personnel more in depth questions were asked, for example when the company owned brands more detailed questions were required in order to gain a better understanding.

The consultation process started with the producer as I felt it necessary to ask famers how they themselves could add value behind the farm gate and prior to marketing their wool. I wanted their perspective on clip preparation, how they decided who to sell their wool to and what was their understanding of branding.

The next phase of my research was to examine what were the options farmers had to market their wool. This led me to consult with a number of businesses in the industry of diverse models and offering a number of selling options and services. I needed their perspective on clip preparation, how they were adding value back to the grower through marketing his wool and in particular what roll did branding play. This group of people was representative of, brokers, exporters, marketing personnel, and Wool Trade Associations. Information derived from The NZ Merino Company has been used as an exemplary case study where appropriate. I have also consulted with a farmer owned cooperative model and gained an understanding of growers taking their product through the value chain to the manufacturer themselves and adding value. It should be noted here that I did not consult

with private wool merchants who purchase wool direct from farmers and this may be a limitation to my results.

All the information in this project is derived from the people interviewed unless otherwise referenced.

### ***Farmer Profiles***

The consultation process involved the interviewing of five average sheep and beef farmers from the Kingcountry region. Average meaning average age range mid fifties and farm size of 5 to 6,000 stock units. It was also important that they all farmed a dual purpose sheep which provided good quality strong wool. In the selection I process consideration was not given to their farm debt level.

### ***Business Profiles***

Some of the larger business models offered multiple selling options to growers, for example they provided broker services, wool auction, long term contracts and owned specific brands. In particular where a company owned brands I would interview their specialist personnel such as the marketing manager as well as any other specialist as was appropriate.

## **Wool Services International**

The origins of WSI go back to 1991 when the company was formed as a subsidiary of the then New Zealand Wool Board to be an independent marketing company of NZ wool. In 1994 the business purchased the Kaputone and Whakatu scouring plants, and in 1996 the Wool board distributed all the shares it owned to 14,000 wool growers.

WSI is now a publicly owned company listed on the NZX who operate a scour and exporting business. The company is the largest exporter of wool in New Zealand and procures wool from direct supply shareholders, subsidiary shareholding Rural Wool Link, Auctions and on line tender, private merchants, slipe wool, and Canterbury Romney Ltd. In 2005 WSI began a branded marketing strategy Redband which was developed as a company recognition brand. The Purelana brand was introduced in 2007 as a direct supply initiative for growers; it is associated with quality standards. The company is also the exclusive producer of the Glacial brand which can only be scoured at its own facility to create premium wool suitable to the manufacturing of pure white and soft pastel shades.<sup>3</sup>

## **PGG Wrightson Wool**

PGG Wrightson Wool is the largest brokerage business in New Zealand handling over 400,000 bales a year. They market wool through the auction system and private contracts. Through their company Bloch and Behrens, PGG Wrightson Wools exports to manufacturers and spinners worldwide by coordinating supply contracts direct with wool growers. The company is represented by twenty three staff members who offer on farm advice in

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<sup>3</sup> [www.woolserv.co.nz](http://www.woolserv.co.nz) paraphrased

shearing, shed preparation, marketing, sheep selection and contracts. There are four processing centres throughout NZ in Napier, Christchurch, Dunedin and Invercargill.<sup>4</sup>

### **Elders Primary Wools**

Elders Primary Wools offers wool brokering services from ten different locations throughout New Zealand (six in the North Island and four in the south Island). The company may sell wool by auction, private sales or marketed directly to carpet-mills yarn makers or exporters. Newly established Wool Marketing Enterprises is owned by Elders Primary wools and will focus on supplying wools that meets the needs and wants of the market.

PWCL is a grower owned company which was established in 1974 to increase the returns for strong wool for its shareholders. In the last thirty six years the cooperative has grown to one thousand shareholders and an investment of a 50% shareholding in Elders Primary Wool. Through this cooperative model and the part ownership of EPW the profits can be returned back to shareholder owner of PWCL.

Just Shorn evolved from the partnership of Elders Primary Wool and Primary Wool Cooperative Limited and the brand is an assurance that the product is created from a renewable and natural resource.<sup>5</sup>

### **Wools of New Zealand**

Wools of NZ was established in 1994 as a marketing company to provide a platform to market NZ wool promoting performance, quality and style. Products endorsed with the brand must meet strict criteria: Minimum content NZ wool - 80% wool content at least 60%

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<sup>4</sup> [www.pggwrightsonwool.co.nz](http://www.pggwrightsonwool.co.nz) paraphrased

<sup>5</sup> [www.eldersprimary.co.nz](http://www.eldersprimary.co.nz) paraphrased

NZ wool, quality control standards, and high quality manufacturing standards. The company has more than one hundred licensed partners worldwide made up of spinners, yarn-makers and manufacturers. The Laneve brand was created by Wools of NZ to attest to the sustainability and traceability of wool. The company has more recently been placed into a grower owned trust.<sup>6</sup>

### **Elco Direct**

This merchant company is a fully owned subsidiary of the Cavalier Corporation which in turn owns the brands Bremworth, Knightsbridge and Norman Ellison. Cavalier Corporation also has 50% ownership in a wool Scour facility in Napier – Cavalier Woolscourers Ltd– and two spinning plants in Napier and Wanganui to provide wool for the carpet making business.

Elco Direct has a team of buyers based in Cambridge, Taumarunui, Raetihi and Taihape and they offer competitive net wool prices behind the farm gate with no added costs. The business aims to provide a consistent supply of wool to service its carpet making subsidiaries but also purchase wool for other New Zealand exporters.<sup>7</sup>

### **Banks Peninsula Wool Growers Ltd**

This company was formed in 2006 by a group of nineteen like minded farmers from the Banks Peninsular to grow the value of their strong wool. To achieve this they have strategically linked with manufactures and retailers in the market place and established long-term supply arrangements with them and close working relationships. They have

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<sup>6</sup> [www.woolsnz.com](http://www.woolsnz.com) paraphrased

<sup>7</sup> [www.elcodirect.co.nz](http://www.elcodirect.co.nz) paraphrased

identified the uniqueness of their natural surroundings, sustainable farming practices, quality assurance, multi-generational family farms into a brand “Banks Peninsula Farms”<sup>8</sup>

### **New Zealand Wool Testing authority**

This company is a wool and textile testing business that provide independent sampling testing and quality certificate of greasy and scoured wool, other animal fibres, yarns, carpets, fabrics and other textile products.<sup>9</sup>

### **The Campaign for Wool New Zealand**

The Campaign for wool is a global five year campaign to create awareness of wools attributes and to reintroduce this to a new generation. Endorsed by HRH the Prince of Wales as patron the campaign is a global community of sheep farmers, retailers, designers, manufacturers and consumers.<sup>10</sup>

### **The Wool Unity Group**

This group was set up in July 2011 with the aim of wool industry unity or common purpose of future direction. The group consists of representatives from wool brokers, wool traders, farmer’s interests such as Federated Farmers, Beef & Lamb NZ and aims to eventually establish a national body with the purpose of adding value to the fibre.<sup>11</sup>

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<sup>8</sup> [www.bankspeninsulafarms.com](http://www.bankspeninsulafarms.com) Information Booklet

<sup>9</sup> [www.nzwta.co.nz](http://www.nzwta.co.nz) paraphrased

<sup>10</sup> [www.campaignforwool.org](http://www.campaignforwool.org) paraphrased

<sup>11</sup> Rural Delivery November 2011, interview Roger interview with Colin Harvey (Chairman Wool Unity Group)

## **The Merino Company**

The NZ Merino Company Limited is an integrated sales, marketing and innovation company for the NZ Merino Industry. The company evolved in the mid 1990's as growers became aware of the shortcomings of the commoditization of their fibre. The company was formed with strategies to lift NZ Merino fibre out of the commodity basket, identify and differentiate NZ Merino from its competitors, and target the highest end of the international fashion market.

In the ensuing years NZM have built strong relationships with partners throughout the demand chain. Some of the key brand partners include: Icebreaker, Smartwool, John Smedley and all the brand partners have embraced the NZM model of long term contracts which has given more certainty to both the brand partners and the growers.<sup>12</sup>

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<sup>12</sup> [www.merino.co.nz](http://www.merino.co.nz) NZ Merino Stud Breeders June 2007, paraphrased

## ***Adding Value Behind the Farm Gate***

In this section the focus is adding value to wool behind the farm gate through clip preparation. It is important to include certified wool testing at this stage as this gives the grower more choices when marketing his wool.

### ***Clip Preparation***

Strong wool buyers are looking for wool that is fit for purpose – that is:

- **low VM** (vegetable matter ie: thistle, Rimu) Average .2 to .5 some specialised contracts require .2 and less
- **Good colour:** colour requirement depends on the specifications for example lighter dyes need bright white wool to take the dye. On farm colour can be influenced by high humidity creating yellow wool
- **Length:** requirement depends on specifications
- **Fibre diameter:** inferior wool should be removed from fleece wool – fribs, top knots, bellies pieces won't take the dye well
- **Micron range:** requirement depends on specifications, but generally between 36 to 38 microns for strong wool.

## ***From the Wool Buyers Perspective are the Growers Preparing their Clip well for Sale?***

Generally most growers are doing an adequate job with clip preparation, indeed our reputation in the market is partially based on relatively clean wool with low contaminants compared to other wool producing countries. We have consistent breeding programmes and some would suggest that the trend towards meat breeds has added bulk to our wool – a positive trait. High VM poses the most bother for processors because it threatens dye penetration and can disrupt the spinning process through interference with delicate machines.

The mixing in of poorer fibres such as fribs, oddments, and different lengths with fleece wool simply downgrades the fleece wool and it is unable to be priced on its full potential. The key here is the sorting process to extract the maximum value available, for example it's possible to have good quality bellies and pieces relative to stained Bellies and Pieces.

Climate related problems such as colour can be an issue and it is largely influenced by high humidity coupled with length of time on the sheep's back. In a warm wet season the problem can be wide spread and too much stained wool is hard for the wool buyers to sell. The climate can also have an influence on the micron range – a good growing season will increase the range 40 to 42; a dry season will reduce the range 32 to 34. Some customers have a maximum of 38 microns so at times it can be challenging for buyers to source enough wool.

## ***The Grower group's perspective on the preparation of his wool clip?***

The Grower group was asked simply to explain what they did to prepare their clip for sale. The results were collated to determine the four most acknowledged farmer actions around clip preparation. (See figure 1)

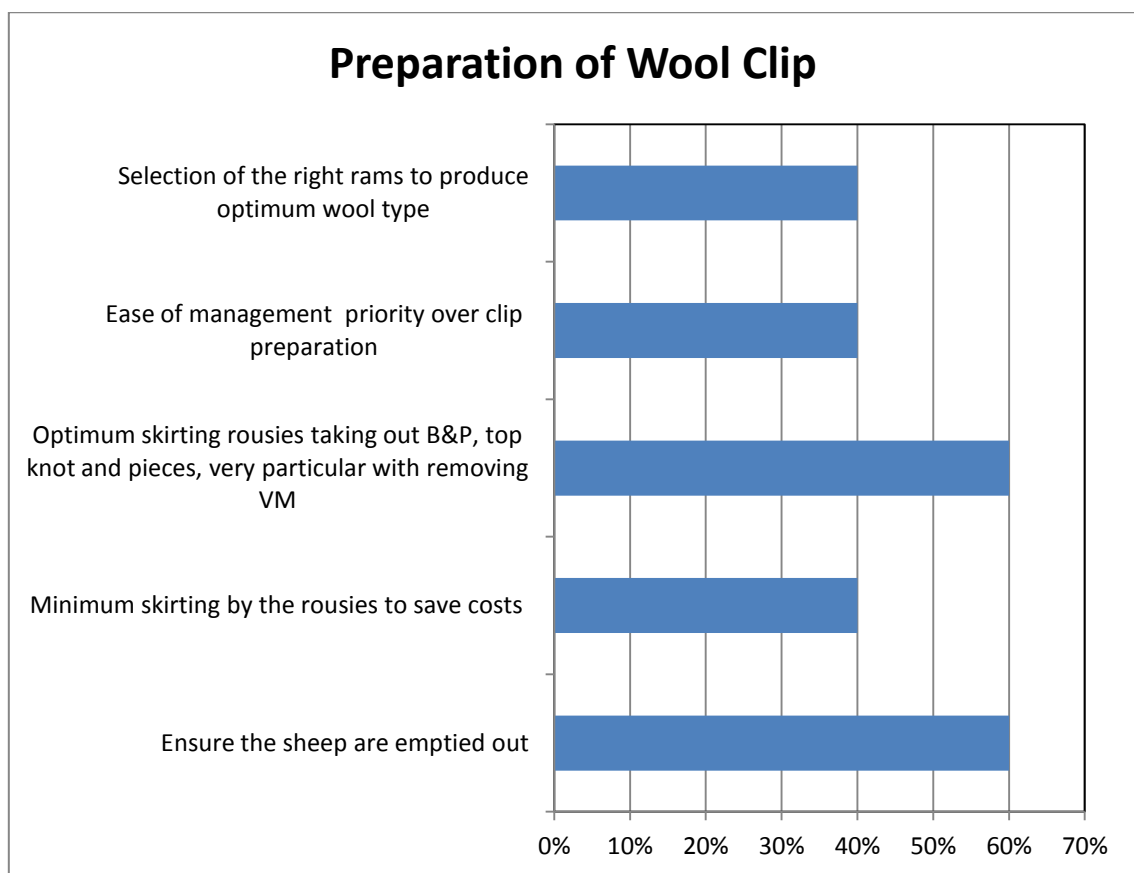


Figure 1.

## ***Summary***

The Grower group had a good understanding of what it meant to prepare their clip well, but for some when prices are low they understandably need to rationalize their expenses by reducing the labour costs of shearing. For example in 2008-2009 year shearing costs were 61% of wool receipts and in 2011-2012 shearing costs were 38% of wool receipts.<sup>13</sup> There are other costs that impact on wool returns such as fly control and the shared costs with the meat component of sheep farming. The farmers were also asked if they felt they were being rewarded for clip preparation. Their replies were unanimously no. Years of primarily low prices have been a constant source of frustration for sheep farmers.

Integrity programmes (see later) go a step further than clip preparation by ensuring the grower is using best farm practices in the management of his wool business. This Quality Assurance certifies the wool is ethically and sustainably produced and it is aligned to a third party accreditation provider – Assure quality NZ Limited. The programmes involve the grower signing a contract to fulfill an order at a given time and an understanding that he can deliver the wool to specification. The farmers that are aligning themselves with an integrity programme are putting more effort in and getting a better return.

There are farmer co-operative businesses in the industry that create their own opportunities to add value to their clip starting with quality preparation. These co-operatives have long term contracts with their customers and provide wool to specifications also adding value through rigorous residue testing and integrity programmes.

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<sup>13</sup> Beef & Lamb Economic Service

## ***Certified Wool Testing***

The NZ Wool Testing Authority's core business is to predict processing performance enabling the buyers to buy the fibre suitable for their specifications – Colour, VM, yield, fibre diameter. The company tests about 70% of the NZ wool clip; a Wellington Company tests the remainder. NZWTA is an Australian owned business which operates a laboratory with sophisticated equipment and has developed a world class reputation as a leader in the field. Most testing carried out is of greasy wool which is tested for colour, VM, yield and fibre diameter. Scoured wool can also be tested for VM and regain before it leaves NZ - regain is a result of wool having a natural ability to absorb moisture after the scouring process. Exporters use the results to determine how much scoured wool they will need for their contract, taking into account about a 16% moisture content (regain).

A supplier that chooses to sell their wool un-tested is reducing his chances of adding value because the buyer can only estimate its value at best. Test results give vital information that can be used as a benchmark for future improvement on farm with clip preparation. The yield in particular can be quite different from one farm to the next and this wool could be blended with other NZ wools to make a parcel fit for sale to auction or contract – some wool in that parcel may have been well prepared and some not so well, the average is what it is. All wool is tested before it leaves NZ so businesses other than the supplier will have the wool tested and take the value that may be available.

***The Grower Groups perspective...how do I decide who to sell to?***

All the growers felt that price was the most important factor in deciding who to sell their wool to. The majority had tried several different options in their farming careers some of their answers reflected a certain amount of dissatisfaction and or confusion. For example price was important but lack of transparency makes it difficult to discern which option to take. Another said price was important because he wanted to maintain control by selling through private merchant and received two quotes. The auction system offered a more transparent option for one grower while another grower said price and loyalty were important so he had sold through a brand with a company for the past four years.

## ***New Zealand Wool Selling Platform at a glance***

The strong wool service sector is made up of different business models. Some well established companies offer brokerage, scouring and direct sale contracts to cater for a range of farmer needs, some are marketing companies, and yet others are farmer owned co-operatives. Private merchants provide a cost effective selling option by purchasing wool directly from the grower. Many of these companies have been trading wool for a number of years and have established long term relationships with their customers and flexibility to their suppliers.

NZ wool is sold through the supply chain predominantly at auction around 46%, with 13% slipe wool (wool from sheep and lambs that are processed) and 41% private sales. Private sales are made up of direct buying through woolsheds, brokers buying back, forward contract sales and branded contract sales. There is no official breakdown of component figures for private sales, however industry sources would suggest that 35% of the strong wool clip is procured by merchants directly from growers. A proportion of slipe wool is sold at auction (unknown figures). Fine wool makes up only 8% of the total clip and over 50% of fine wool is sold through long term contracts and the remainder at auction. Nearly 88% of wool sold at auction by traders is strong at 31 microns and over and becomes part of a supply chain<sup>14</sup>.

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<sup>14</sup> Beef + Lamb New Zealand Ltd Economic Service (2012), Compendium of New Zealand Farm Facts, Beef + Lamb NZ, p.4.

## ***Supply Chains what are they?***

A supply chain includes every company that comes into contact with a particular product. In the NZ strong wool industry it starts with the raw product and moves on to broker or private merchant, distributors, scourers, exporter, spinner, manufacturer, and eventually the retailer. Along the way many of these companies take ownership of the product creating an element of risk which can build up along the chain.

One disadvantage of supply chains is that communication can only exist with the next business along the chain, and when the chain is long overall communication is poor. Market signals are therefore slow to feed back to the supplier and as a result the market is often volatile. This can lead to a Bull Whip affect.

This concept was first developed in 1961 by Jay Forrester who wrote "Industrial Dynamics" which described the affect of fluctuating demand build-up through the supply chain as reminiscent of a cracking whip or "Bull whip".<sup>15</sup> Over the past eighteen months we have seen the effects of a "Bull Whip" in the Strong Wool industry where the stocks of world wool that were held in the pipeline were utilised, which pushed the prices up creating demand. However the ripple up-stream was amplified as it passed through the various businesses concerned about maintaining supply. This created false signals and drove them to purchase more supply than actual demand would suggest. The net result was warehouses around the world stocked with unsold product for a time and farm gate prices plummeting.

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<sup>15</sup> Industrial Dynamics by Jay Forrester published 1961

## ***The Auction System***

The auction system is essentially a spot market option for selling wool with no guarantee of repeat business. Growers can feel discouraged from selling their wool this way as the auction cost structure is higher than dealing with private merchants. Prior to auction all the wool is tested by the NZWTA and buyers will view the wool one to two days before to determine which wool they wish to bid on. The auction is transparent and often used as a benchmark for other selling systems. The grower has the option of putting a reserve on his wool; if it doesn't reach the reserve it can be held in the wool-store and sold at a later auction. Price trends depend on what exporters require for their contracts on the day and the type of wool they need as some is blended later when it's scoured. The time of the year affects demand and therefore price for example January, February, March; and June, July, August are the times most people shear and more volume of wool is available for sale, this can put downward pressure on prices. Some Exporters rely predominantly on the Chinese market which buys most of our strong wool now at 47%. Much of the wool being sold into the Chinese market is in greasy form as they make products out of the grease. In fact there is a 6% tariff on scoured wool going into China. The grower is generally unaware of the destination of his wool when selling it at auction.

## ***Private Merchants***

Wool merchants procure wool direct from the grower and offer a cost effective wool handling service.<sup>16</sup> Growers that choose this option prefer competition at the farm gate and

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<sup>16</sup> [www.woolfirst.co.nz](http://www.woolfirst.co.nz), Federation of NZ Wool Merchants

will likely receive at least two quotes. The buyer may take a wool sample, assess the wool type and estimates its value usually within a few days. The grower does not necessarily have his wool tested by a certified test when he sells to a private merchant.

### ***Transition towards value chains***

A Value Chain as described by Michael Porter in the mid Eighties in his book “Competitive Advantage, Creating and Sustaining Superior Performance”. “A value chain is a chain of activities. Products pass through all of the activities of the chain in order and at each activity the product gains some value. The chain of activities gives the product more added values of all activities”.<sup>17</sup>

In the wool industry value can be added along the chain from producer to scour, exporter, spinner, manufacturer, marketer and finally retailer. This value can be added by services and not necessarily through every business owning the product.

### ***Building Relationships***

As I said earlier NZ strong wool is a commodity sold predominantly through a supply chain, however there are some businesses who are adding value first and foremost to improve their own returns but also to secure supply of wool for their customers who may have specific needs. NZ wool buyers that work in the market place closer to the businesses that are setting the price of the finished product are able to determine exactly what the customer needs and then communicate these specifications into a contract to be fulfilled by

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<sup>17</sup> Competitive Advantage, Creating and Sustaining Superior Performance by Michael Porter

the supplier. These relationships are built on trust and integrity and this can only develop over time with clear communication from both parties. Businesses relish the opportunity to invite their customers out to NZ to experience first- hand what life on a farm is like – relaxing in the natural environment and living the “NZ story” is unique to many overseas people but often we in NZ take it for granted.

It’s in the interests of these companies to communicate further up the chain to try to bring value back to the supplier – if sheep numbers continue to decline in NZ all businesses servicing the suppliers will be affected. These companies can provide growers with a closer link to the customer and a pathway to communicate the grower’s costs and margin required to make his business viable. It is important to note that to extract more value you must be providing something extra such as added services or technical and marketing support.

The outcome of this communication is the shortening of the supply chain which reduces the risk that is built up when the raw product passes through many businesses along the chain.

### ***Farmer Owned Wool Co-Operatives***

Farmer co-operatives are formed by like minded wool growers seeking to improve returns for their wool. Initial injection of grower capital is required to establish these companies enabling them to go to the market and develop a marketing strategy often involving a brand with a story attached. There are several ways value is being added back to the grower.

The wool is sent direct to scour and on to the spinner creating efficiencies in trucking and brokerage costs by shortening the supply chain. The co-op develops a direct link with the customer to provide the required product and often funds the contract through to its final destination - a sharing of the risk but reaping the reward for this. There are several advantages in dealing directly with the customer, but ultimately having that connection to the market place is paramount. It is a two way relationship – the customer and grower can negotiate a contract price that ensures the grower is making a margin and the customer is guaranteed a constant supply of quality product. It's about building trustworthy relationships and this takes time and patience; and also integrating the supply chain to create more value to the grower

### ***Fixed Forward- Contracts***

Trading wool through forward contracts direct to the manufacturer is a way of taking some of the volatility out of the market as less wool can then be auctioned. Contracts can be offered from three to twelve months and signed at a time when there is a lack of wool on the market. Often overseas buyers prefer to buy wool this way as it helps to shorten their business chain; therefore there is less risk of NZ wool being substituted for other inferior fibres which could down grade their end product. The buyers are concerned with maintaining a constant supply of good quality NZ wool. From the growers perspective the contracts can be a useful budgeting tool and give some stability to their business.

## ***Branded-Contracts***

At this market end of the supply chain there is a lot of competition for market share and therefore it's important to create awareness of your value proposition. This can be achieved through the establishment of a brand.

What is a brand? A **brand** is a "Name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers . These days branding has evolved to become part of our everyday lives in many forms and has an enormous impact on the way we purchase our goods and services. As quoted by Derrick Daye of Strategy Brand consultancy an American company *"A brand is a source of a promise to its customers. It promises relevant differentiated benefits. It does so not only to place itself into the purchase consideration set, but even more importantly, to be the brand chosen from that purchase consideration set. This is also sometimes referred to as the brand's unique value proposition. Whether it is called a unique value proposition or a promise of relevant differentiated benefits, it is very important that the promise or proposition be delivered consistently at each point of customer contact, time after time."*<sup>18</sup>

### ***What was The Grower Groups perspective on branding?***

**Only one grower sold his wool through a brand and chose the brand because he supported the company that developed it. The remaining growers had a variety of reasons not to pursue branded options such as they hadn't found the right brand, or thought that**

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<sup>18</sup> [www.brandingstrategyinsider.com](http://www.brandingstrategyinsider.com) author Derrick Daye

brands fragmented the industry, were uncertain of the value of branding and thought that before trying a brand it needed testing in the market place first.

The grower brand knowledge was varied over half couldn't name or differentiate any strong wool brands; while a third were able to name several brands.

When asked did they think brands would play a more important role in the marketing and selling of our strong wool in the future they replied: one brand that focuses on wool quality; other thoughts were yes a shift to natural renewable resources will drive the popularity of wool; yes I hope so but unsure how; and no China will be a leading buyer so don't think brands will be necessary.

### ***Providing Premium Branded contracts***

In The NZ wool industry brands have evolved to create global awareness of NZ wool, company recognition and trust and product differentiation. Because of NZ wools reputation in the world market most of our brands have wool quality built into the story but other brand features capture the many attributes (utility) and the emotional connection or the feel good factor of wool and the NZ sheep farming family, hence there is a great deal of potential to differentiate.

### **Differentiation of our Wool Brands**

Most of our strong wool brands are linked to carpet either at the manufacturing or retail end of the value chain. This industry is totally dominated by synthetic fibre; which as a by-product of large global oil refining entities, has vast sums of investment in Research & Development and marketing expertise at its disposal. In recent years the synthetic fibre

industry has successfully promoted itself as a sustainable product - some would say a rather dubious claim when you examine the true meaning of sustainability I quote the Collins Dictionary "*capable of being maintained at a steady level without exhausting natural resources or causing ecological damage*" In order to compete woolen carpets and rugs need to be positioned at the high end of this market with clearly defined features.

Our brands have focused on wool as a renewable resource capturing the utility features of white, bright, tensile strength and durability. Wool Services International has created a brand called "Purelana" which is a quality standards brand around wool colour, length and low VM.

As I outlined earlier the way in which we grow and prepare our wool allowing our animals to free range, and indeed Legislation in NZ around Animal Welfare and restricted chemical residue levels in our pastoral products set us apart from other producers around the world. The people side of our intergenerational family farming businesses; their passion for the land and animals can also be an important value proposition giving an emotional connection to a brand.

In 1994 Wools of New Zealand was established as a subsidiary of the Wool board to provide a platform to market NZ wool, today they are known in the industry as facilitators who don't buy wool but, rather help to influence spinners and manufacturers to use quality NZ wool in their products thereby helping to increase its awareness . Their brand "Laneve" is wool traceability back to the farm of origin and growers need to be part of an accredited quality assurance programme which is regularly audited in order to ensure grower integrity.

Wool Services International created the brand “redband” around Trust - to give their company recognition that “redband” baled wool is from WSI in NZ.

The Niche nature of wool worldwide means that NZ brands can differentiate the markets they choose to target. At the consumer end targeted markets could include for example a middle to upper income group who have an emotional connection to environmentally friendly products. This is the American carpet market that the “Just Shorn” (Elders Primary Wools) brand has targeted.

There are numerous examples in the fine wool industry of specific consumer groups such as the active minded group and “Smartwool” is a brand that targets this active group. It was founded in 1994 by two ski instructors who were looking for ways to keep their feet comfortable on the slopes. During the experimentation process they discovered the benefits of wool and dedicated themselves to creating a product that was soft and didn’t shrink. Initially consumers took some convincing to try the socks - they thought wool was itchy – however fifteen years later it is a leader in the active apparel wear.<sup>19</sup> Often our strong wool brands are targeting markets in specific countries for example as previously noted “Just shorn” is specific to the American market. Please see figure 2 for examples of NZ wool Brands and the companies who have developed them.

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<sup>19</sup> Stanford Graduate School of Business, New Zealand Merino “Pursuing Accelerating through collaboration”, page 35, Smartwool profile



Figure 2.

### Working with Brand Partners

Some NZ companies have formed partnerships with marketing businesses, manufacturers and or retail chains to develop specific brands with utility or a story attached in order to add value and increase the volume of sales. There must be a compelling reason for a brand partner to invest; for example a like minded business philosophy, to maintain a consistent supply of quality raw material or to have an exclusive arrangement.

As stated earlier Wools of New Zealand has developed relationships with over one hundred spinners and manufacturers and in fact these partnerships are the cornerstone of their business. To be able to display the 'Blackfern' logo partners must abide by the rules or standards of the License agreement which is briefly minimum content NZ wool, quality control standards of the wool and a certain standard of manufacturer. The license arrangement gives the company an income stream, but also enables it to question what their partners are doing in terms of maintaining the integrity of the brand. Because of its range of partnerships in the processing part of the industry The Wools of NZ brand has acted like an umbrella brand to tell a consistent story around quality fibre into high quality products.

The "Just Shorn" brand developed by Elders Primary Wool and Primary Wool Co-operative has formed a partnership with the largest flooring retail chain in America – CCA Global which own two large retail divisions – Carpet One Flooring and Flooring America and Canada (about fifteen hundred retail stores). When woolen carpets make up only 2% of the trade in America this represented a great opportunity for CCA to re-educate consumers about the benefits of wool and this was a new story with an exclusive arrangement. Developers of the brand hired a reputable agency in America to examine the consumer behavioral trends and determine their targeted market. Results showed that there was an upper to middle income group driven to make purchasing decisions by their own values rather than by price and a growing awareness of natural health and sustainable products. The advantages of working with a partner such as CCA are a large well established company with extensive distribution and business capabilities to drive demand through scale and this is important when you are trying to create consumer awareness about wool. A part of their campaign is to tap into on-

line blogging systems, in particular to target influential people in the bloggashere. A further partnership arrangement with manufacturer Godfrey Hurst will result in the carpets being manufactured in Auckland which would add to the authenticity of The NZ Story.

In the fine wool industry The NZ Merino Company has used a systematic approach to the development of Brand Partnerships. Initially creating their own ingredient brand “Zque” - as a result of some intensive research of the merino fibre they identified the key attributes of moisture management, softness and comfort, thermal control, insulation, firesafety, odor control, and easy care. They were able to determine that NZ merino fibre was superior to the Australian equivalent because it was whiter, brighter and more durable. The next step was to attach accreditation and traceability to the brand giving it integrity and an emotional connection to the grower.

Investigation in the market place determined that this brand would sit comfortably in the growing “Lifestyles of Health and Sustainability” or LOHAS market. These consumers were identified as being active, involved, passionate, influential, principled, responsible, self-confident, discerning, and sophisticated. A closer look at the product brands that targeted LOHAS revealed that these brands fell into several categories such as active outdoors, high end hosiery, luxury suiting, knitted fashion, baby wear, school uniform, bedding and interior textiles.

The NZ Merino Companies innovative approach was to take the attributes learned about the fibre, customize their own message for each category, identify the leader in each category and then have prototypes made up for each one. In this way they were able to take their prototypes to these companies say here’s your product and here are further opportunities

to differentiate by adding “Zque” to increase its value further. Today The Merino Company works in partnership with at least eight companies within the targeted market.<sup>20</sup>

These opportunities to work with brand partners have helped to give our NZ businesses scale and entrepreneurial expertise and looking forward as new innovations become available, new brands will develop to market them.

The NZ story brings more differentiation to strengthen the value of these brands. NZ’s reputation as a clean, green environment relative to most other countries; our high animal welfare standards; and sophisticated farming systems coupled with free range animals is a great setting for the establishment and sustainability of our brands. The emotion around the story is very marketable.

Interesting in the 2012 KPMG Agribusiness Agenda – People unlocking the Future - revealed that Branding was ranked within the top 10 most important issues by industry leaders. Author Ian Proudfoot felt that the NZ Provenance Story existed but that the industry hadn’t put enough effort into telling it in a consistent and compelling manner.

Quoted from the document: *“What differentiates New Zealand product from product from other regions with similar natural advantages? The real story we should be telling is about: i) the safety and quality of our products ii) the unique flavours and textures that our farming systems create, and iii) the efficacy of the way our products are produced. The key is to combine New Zealand’s compelling natural story with the provenance of the products in a brand (or brands) with consumer appeal. This will allow our producers and organisations to*

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<sup>20</sup> NZ Merino Company, “Pursuing Acceleration through collaboration”, page 9 Product and Partners

*better capitalise on New Zealand's existing brand values that are respected by the rest of the world".<sup>21</sup>*

### **The Integrity of NZ branded wool and how to protect it**

NZ wool is generally blended with other wools to add strength – this is very important as the wool passes through sophisticated fast machines in the spinning process and weak wool will break creating untimely disruptions. In the manufacturing of carpets blends require different wool characteristics - wool bulk (British wool is generally more bulky) for example, other blends may require a hairy look so you would add Drysdale wool. Many innovative fashionable products will necessitate blending and in some cases other fibres such as silk or synthetics - standard Axminster carpet is now 80% wool and 20% nylon.

The blending of NZ wool to make specific products of high value is important to our customers and enhances the flexibility of our fibre. Unfortunately there are times when the integrity of our wool is abused by others when traders substitute inferior wools for NZ wool which they then on sell as New Zealand fibre and take the value. This is damaging our reputation particularly when the inferior fibre breaks during the processing stage. Once the wool leaves our shores it becomes increasingly difficult to maintain its integrity through to the end product. It has been suggested that one way of maintaining integrity is to be scouring NZ wool with a brand attached to it making it less likely to be blended with inferior product. Currently about 60% of NZ wool is scoured before it leaves our shores, however the remaining wool is baled up and shipped away in greasy form. Also a gradual move away from commodity trading towards integrated chains and contracted brands with integrity

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<sup>21</sup> KPMG Agribusiness Agenda 2012 – People unlocking the future- By Ian Proudfoot; Industry Leaders Highlight their priorities page 13, page 20

and traceability attached will shorten the chain and there will be less opportunities for counterfeiting to occur.

New technology is now becoming available to enable the tracing of fibre to prevent counterfeiting. This fibre tracer has unique codes which are detected using an electronic reader specifically designed to detect each individual code.

### **Brand Awareness and success in the market place**

So to sum up what influences the success of a brand? As we have seen defining the function of a brand is essential in order to determine the target market - whether it be company Trust and recognition or providing a premium back to the grower through differentiation.

For some companies success in the market is hard to quantify – Wools of New Zealand has been linked to NZ wool right across the supply chain. Maintaining a constant brand presence in the market place for over seventeen years has increased the company's profile with manufacturers and spinners. Also Research & Development personnel often approach the company to explore an idea because of its linkages to other businesses.

Branding is a relatively new initiative in the strong wool industry therefore many are still establishing themselves in the market place. It takes patience, investment, persistence and time to develop awareness, and ultimately success is determined by financial return on investment. Elders Primary Wools has spent three years developing the "Just shorn" brand and setting up partnerships, and is about to launch a new carpet collection, marketing and

training programme, and in store display supported by partner CCA. “Laneve” was launched in 2009 and is steadily increasing its profile particularly in the European market.

Wool Services International has reported that their branded strategy is working well in terms of solid recognition in the market place. They are receiving more inquiry for “Redband” Wool – the physical visual presence of the red band on a bale of wool linked to trust of the integrity of the fibre - and also their quality standards brand “Purelana”. As noted in his 2011 Annual company report managing director Micheal Dwyer: Quote “The Purelana strategy is working well to lift the Companies product into the higher quality segment of the global market place” <sup>22</sup>

Banks Peninsula Farms a brand developed by the Banks Peninsula Cooperative group believes their success in the market is built on personal relationships and trust – they supply a manufacturing company in America. There has been significant growth in the business from the nineteen original growers to fifty five today and about 1.2 million kilos of wool production.

The underlying challenge for all strong wool brands is a world recession and lack of consumer awareness of wool.

***Are the growers receiving more value behind the farm gate through selling their wool through branded contracts?***

Farmers are receiving more value for their wool selling this way, some would say it’s not a great deal more – cents per kilo rather than dollars per kilo. The key message is that perhaps

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<sup>22</sup> [www.woolsev.co.nz](http://www.woolsev.co.nz), 2011 Annual Company Report

farmers should consider long term which of our selling systems will reward a quality product.

### ***Are there too many brands?***

In a competitive commercial environment you can't stop branding and wool is a niche product ideally suited to target specific markets around the globe. Most importantly for New Zealand wool is the NZ inc. brand and creating awareness of NZ wool and its unique attributes. If there is any confusion the market will dictate who survives which is ultimately influenced by the compelling story of the individual brand. It is important though to consider the time and money involved in creating, establishing and maintaining a brand. Continual investment in brand innovation could be a challenge for NZ companies and growers alike but the key is to link with the re-seller in order to leverage distribution and create premium values.

### ***Are there more opportunities to differentiate?***

Wool is a unique natural fibre with clear attributes many of which are largely unknown around the world. It is one of the oldest traded commodities and has been used by mankind for over 10,000 years. In the last thirty years its traditional market has been taken over by synthetic products. Global markets are so uninformed that man-made fibres are able to market "Polar Fleece" apparel fabric – when the original meaning of the word fleece is: *A coat of wool that covers a sheep*. Consequently we now have a generation of people who are unaware of wool.

As a renewable resource supply is only limited by the number of sheep farmed around the world. It takes less than a kilogram of oil to create one kilogram of wool, compared to five kilograms of oil to create one kilo of nylon. It is also a long life material and 100% biodegradable. Wool is a safe healthy fibre it is non-flammable, low allergy, can absorb impurities and moisture from the air, will absorb sound, and is less static.

In May 2010 a number of world renowned architects met in New Zealand to learn about the potential benefits of wool in creating interior textiles. It was reported that at the time these people were astonished by the unknown possibilities that wool presented. They were inspired to use this new information to develop innovative ideas and create new products. For example: Architect Mathias Hey from Germany developed an idea of fashionable kites hanging from the ceilings in Hotel Lobbies, conference rooms and open-plan offices. These three dimensional kites made out of felted wool could also absorb sound.<sup>23</sup>

Wool Industry Research Limited has a number of Research and Development projects underway to increase the value and competitiveness of NZ wool based activity. The consortium will develop a range of innovations including wools use in bedding and textiles in response to consumer trends and encourage their use by commercial companies and marketing programmes.<sup>24</sup> Linking these innovations to companies that can develop brands and target markets which will absorb significant volumes of product is absolutely critical to future success.

The Campaign For Wool is about creating awareness of wool and its attributes globally to enable woollen products and Brands to take advantage of that awareness creation. The

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<sup>23</sup> Wool in Architecture and Interior Design published 2011 by GKT Gesellschaft, editor International Wool Textile Organisation

<sup>24</sup> [www.woolresearch.com](http://www.woolresearch.com) Wool Industry Research consortium

Campaign began in October 2010 in the United Kingdom with the launch of Wool Week initiated by HRH Prince Charles. The Campaign is multi-national, multi-sector and tries to embrace all sections of wool users from the very large to small specialist craftsman.

The Campaign is governed by a board structure and under the board there is a council of people selected for their expertise made up of designers, architects, interior decorators, wool exporters etc. Everyone who wants to be involved gives financially to the campaign. The council receives applications from people who want to create awareness; it might be a furniture fare or a launch in Japan. There are about 20 people in the group and they decide how to spend the money.

***Is there a way of measuring the response so far?***

There is a communications agency employed to do the measurement and they have a number of formulas. When there are events they measure the response from the media for example the first wool week in London initiated a media response of 168 million people. The second year it was the first time that wool appeared in the five main daily newspapers within the first three pages throughout the U.K.

***How is the awareness creation of wool linked to branding?***

The brand comes on that awareness creation. It's pointless creating awareness unless you can say "come to Harrods" and buy wool – Icebreaker or Cavalier etc. So then the brand partners who are licensees have the opportunity to come in with their brand, using their relationship with the campaign.

## ***Conclusions***

### ***Does the strong wool grower receive more value for his product through premium branding compared to other wool selling systems in New Zealand?***

Branding and branded contracts are a small but significant part of a complex strong wool selling platform in the New Zealand sheep and beef farming sector. Growers that market their wool through branded contracts are receiving more monetary value – cents per kilo more – than the other options.

Potentially it will be successful brands representing a range of innovative products that have the power to create awareness of our wools natural attributes and benefits in today's world. The availability of these contracts can only increase if our companies are committed to cultivate this value add pathway. It will take on-going investment to support the brands we have already in place; but also investment to develop new initiatives that use wool in a variety of ways to bring further differentiation.

It's up to growers to make informed decisions about the way they take their wool to market with "value -add" at the forefront of their minds. This process begins with sound clip preparation and certified testing, however there needs to be follow through to examine the systems available that incentivize this quality. To build relationships with businesses who take the shortest pathway to product manufacture creates efficiencies and fewer opportunities for others to abuse the integrity of our fibre. A grower who takes pride in the

presentation of his clip should be rewarded for his trouble – this has not transpired as we have seen through commodity selling where our wool can pass through many hands!

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