

# Strong Wool NZ: where to from here?



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## **Strong Wool NZ: where to from here?**

The objective for this report was to identify issues within the strong wool industry and define ways to move forward.

After major changes to the governing structure of the New Zealand wool industry in 2000-2001, the strong wool sector failed to progress. With no grower organisation in place after the disbanding of the Wool Board, the gaps between grower and market widened. Promotion and education, communication and teamwork will be major factors in this sectors' ability to turn around and save its market place. Strong wool growers need to take a more proactive approach when selling their wool clip and the industry has to become more proactive in establishing and responding to the market requirements/ trends. Industry members need to listen to what the end consumer wants and needs, as failing to do so will see the end consumer move away from wool and ultimately New Zealand strong wool growers will lose that place in the market. This will reduce demand for New Zealand strong wool and the price will reduce further.



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## Introduction

The purpose of this report was to identify underlying issues in the strong wool industry both here in New Zealand and the international market and find ways to look forward with a more positive approach. Since the release of the McKinsey report in 2000 and the ending of the New Zealand Wool Board, the strong wool industry has changed markedly.

With no grower organisation in place for strong wool farmers there are gaps in the internal infrastructure. This has led to decreased communication throughout the industry. Activities to promote strong wool and maintain quality of product to meet market requirements have ceased, the result is a reduced price and a lesser quality product.

Three sectors of the strong wool supply chain were interviewed or reported on to gather an insight into the industry. Industry members both past and present, wool buyers, wool exporter council personnel and Meat and Wool Board members were interviewed. Twenty strong wool sheep farmers were interviewed and/or surveyed, and finally an international wool research survey report was reviewed to get an understanding of the global perspective.

The key areas needing identification were defined by those interviewed as promotion and education, the need for engagement, teamwork and finally communication between all sectors.

This report has been broken down into three main parts: the industry view, the farmers' view, and a report on the international survey. The conclusions and recommendations embody all the differing views and draw out some of main requirements for the industry to move forward.

This has been a large project to embark on. To gain an insight into the strong wool industry, I felt it was necessary to look at the strong wool producers, industry in New Zealand beyond the farm gate, and the international consumer view. At times it has been challenging to keep the report within the defined parameters I wanted to investigate, along with gathering and collating the information.

I would like to take this opportunity to thank the industry members and farmers for participating so willingly in this project and for all the information I was able to gather. I would also like to thank Meat and Wool New Zealand for the data supplied and for the copy of the McKinsey report.



## How did we get to this point?

Prior to the dissolution of the New Zealand Wool Board, sheep farmers sold their wool primarily through wool brokers and private buyers. The Wool Board would set the reserve for the wool auctions; wool that didn't meet the reserve was then bought by the Wool Board. This kept prices high and wool was stock piled by the Wool Board. The Wool Board was responsible for all marketing and promotion of New Zealand wool and developed brand marks such as 'Wool Mark', 'Wool Blend Mark' and 'Fernmark' to promote and market wool. It was also responsible for research and development of wool products. No distinction was made between the different micron groups. New Zealand wool can be divided into three main micron groups based on average diameter of the fibres.

New Zealand sheep farmers were becoming increasingly concerned over declining wool prices and were unhappy with the Wool Board structure and strategies. <sup>1</sup>At the October 1999 Annual General Meeting of the New Zealand Wool Board, a large majority of growers supported the commissioning of an independent report to make recommendations on a practical way forward.

In June 2000, the McKinsey report was released to the New Zealand wool growers. This report would have profound results on the wool industry of today. For each of the wool grower sections, Fine wool (less than 23 micron, generally merino), Mid-micron (23-31 micron) and Strong wool (over 31 micron), there were recommendations, for strong wool growers the following recommendations were made:

### <sup>2</sup>Commercial Marketing Company for strong wool

- Levy-funded promotion should cease, and Wools of NZ should be transformed into a new commercial wool marketing business. ('StrongWools NZ')
- StrongWools NZ should have exclusive access to Wools of NZ's assets, and seek to profit from the marketing NZ strong wool and from related commercial activity.
- Growers should be given the option of investing StrongWools NZ.

### Other Recommendations

#### Wool Selling Methods and Woolnet

- Current methods for selling wool via auction or private sale should remain as selling options.
- Woolnet should be commercialised to accelerate the development of electronic selling of wool.

#### Productivity and Restructuring

- Growers need to drive improvements in on-farm productivity, aiming for a 5% annual improvement rate.

<sup>1</sup> McKinsey Report June 2000

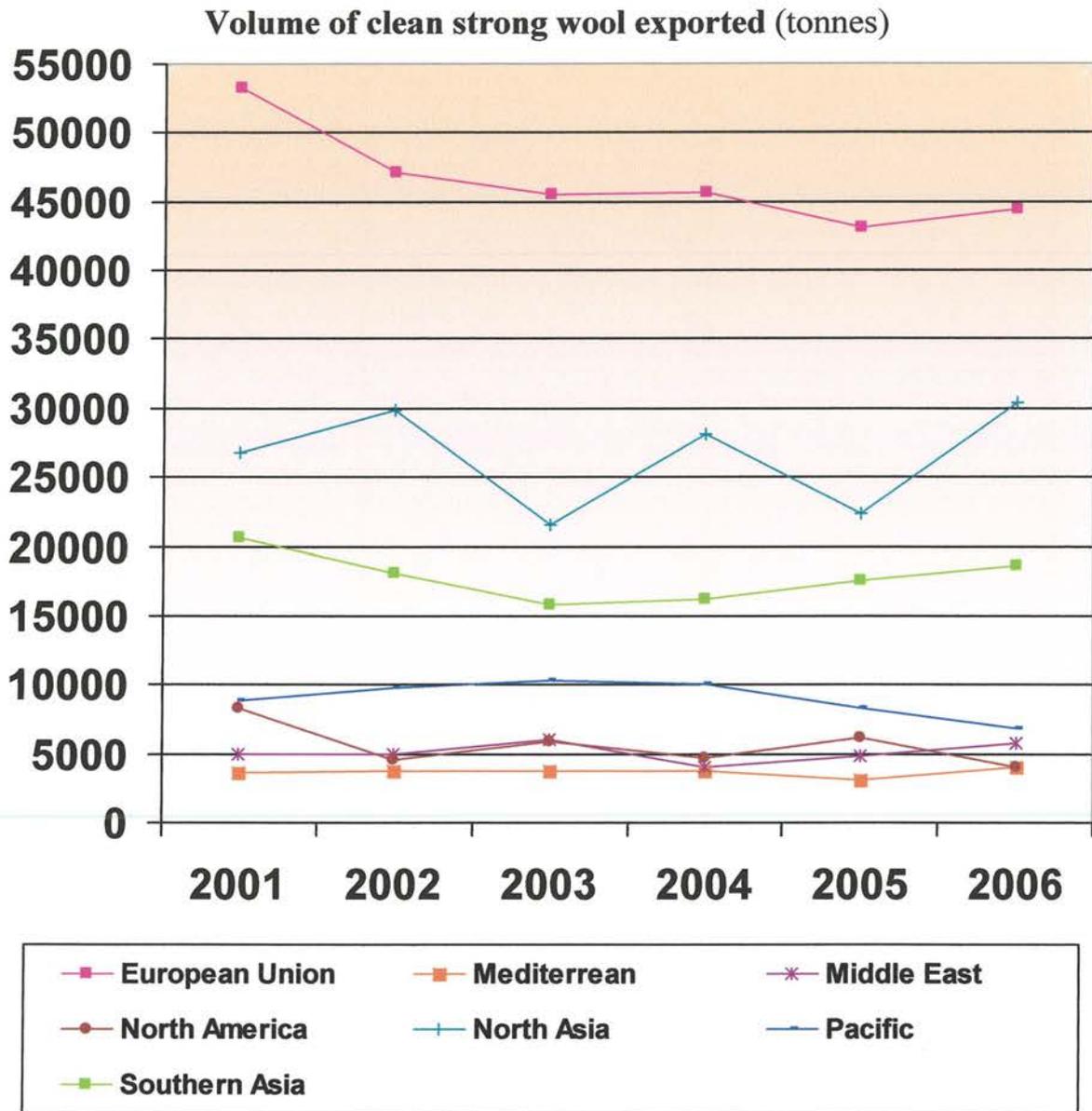
<sup>2</sup> McKinsey Report June 2000



Shortly after the release of this report, the wool growers voted to disband the Wool Board. The equities were put into companies and merino and mid micro growers formed groups. StrongWools NZ failed to form a grower group and strong wool farmers were on their own.

In '2000 -2001 there were 42,260 million sheep in New Zealand and strong crossbred sheep were approximately 77% of the national flock. Strong wool was sold to 58 countries in 2001 and it has decreased to 49 countries in 2006.

<sup>1</sup> Source Meat and Wool New Zealand Annual Report 2004-2005



Data information sourced from Meat and Wool New Zealand



## The Industry View

The wool industry today is very different from that of ten years ago. Then, strong wool was being sold through wool brokers, and went to an auction system that was being propped up by the Wool Board. The other alternative was private sale. Today, strong wool is being sold in more ways; private wool buyers, under contracts, by brokers at auction (now there is no Wool Board to affect prices) and a small number of farmers sell direct to the manufacturers.

<sup>1</sup>Approximately 77% of export wool is sold in a 'clean' state. (Clean wool has been through a wool scour to remove the grease, vegetable matter and dirt). <sup>1</sup>In July 2000 to June 2001, the amount of clean wool exported was 166,188 tonnes, of which strong crossbred wool made 127,674 tonnes (76.8%). In July 2005 to June 2006, the amount of clean wool exported was 148,433 tonnes, of which strong crossbred wool made 115,191 tonnes (77.6%).

All industry persons interviewed agreed that strong wool would never again reach the great prices of yesteryear, but most agreed that there is still a market worth pursuing for strong wool. The interviewed industry peoples' view is that there needs to be substantial changes to address marketing and promotion, communication between the sectors in the wool chain and to produce what the market needs. If this is not pursued, we will see a decline in the use of New Zealand strong wool, as the above problems are having a negative affect on the international market.

In interviews with people involved in the wool industry both past and present, wool buyers', wool exporters' council personnel, Meat and Wool NZ board members and a discussion group at Federated Farmers the following main factors have been identified as issues needing to be addressed.

### Industry Issues

- A more co-ordinated approach is required in the industry.
- There is a need to address problems within the local industry itself such as communication, producing product the market requires and presentation of product, so as to better meet market needs and expectations.
- Contract sales are a fact of selling wool, so make them work better.
- The auction system is a major part of the wool industry it needs to work better for both seller and buyer.

### Farmer Inputs

- There is a need for more engagement, information and teamwork between primary produces and the end market.
- Farmers need to be part of the value chain.
- A quality product must be maintained. There is a lack of knowledge and/or understanding of what the market requires and information does not filter down to the grower level. Wool quality then doesn't meet market needs.
- Strong wool farmers need to form a grower group to be better informed on the industry.
- Strong wool farmers need to be prepared to market their products if necessary.

<sup>1</sup> Meat and Wool New Zealand Economic Service



## Market Needs

- We need to make sure we are selling the customer what they want.
- Demand for the strong wool is high at present. The New Zealand strong wool clip is sold every year and at this point in time strong wool is not stock piled.

## Promotion

- We need to look at brand partners, brand recognition and the use of a brand for marketing wool.
- There is a real need to educate the market place about strong wool, especially retailers and the end consumer.
- We need to start promoting strong wool again.

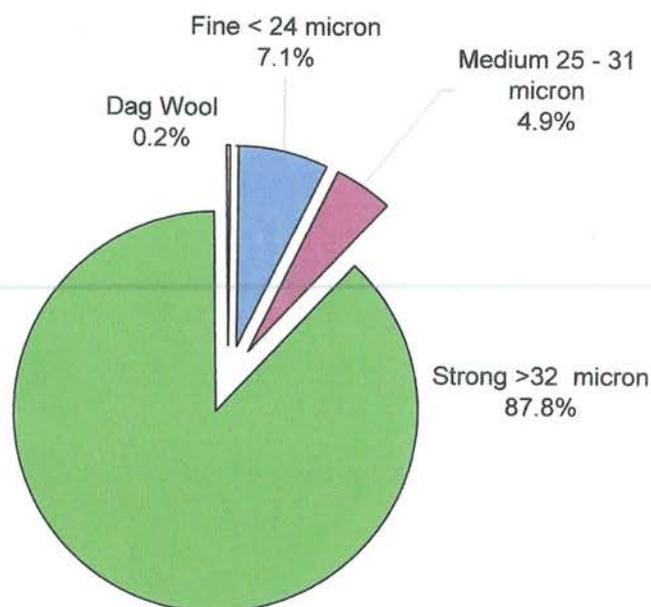
## Other Options

- We need to look at a major warehouse for storing and selling wool. This could include better blending for more consistent lines of wool for the market.
- There is a need to look at other uses for strong wool; a possible niche fibre market.
- Research and Development for other uses of strong wool.

## Other Factors Identified

- The whole industry from farmer upwards needs to be responsible for the industry.
- What about credibility?
- We need passionate people in the industry.
- What do we want to achieve? What do we need to achieve to stay in the game?

## 2004-05 Main Types of Wool Sold at Auction (Clean)



Source: Meat & Wool New Zealand Economic Service



## The Farmers View

The general feeling among interviewed farmers was that the wool industry isn't working for them at present. They all agreed that increased costs and lower returns are having an impact on their incomes. The lowering of wool payouts and the push for more lamb production has seen an emphasis to select more for carcass weight and increased lambing percentage, while attention to wool genetics has declined. This has affected the wool industry, as the introduction of compost breeds has led to a drop in fleece weights and black fibres in the fleece, this limits the end market uses even further.

Farmers feel that they have little input into the market as they receive no feedback about their wool. Strong wool farmers have become price takers not price makers. They have no grower group or organisation where information can be gathered and passed on, or keep them informed on current market issues.

A group of twenty strong wool sheep farmers were surveyed and/or interviewed on the strong wool industry.

The following is a summary of those farmers' views.

### Industry

- The producers of strong wool are only interested in selling the wool. Issues and price are discussed with the wool buyer.
- Farmers don't ask questions about the destination and/ or requirement of the end market and this information is not offered either.

### Farmer Inputs

- One third of farmers surveyed would like to see the formation of a grower group.
- Most farmers surveyed still believe that presentation of a fleece was important with 40% of farmers surveyed still using new wool packs even though there is the option to use recycled wool packs, and 99% still 'skirt' the fleece to remove the less desirable areas, e.g. short dirty wool, necks and stains.
- Information about wool prices, trends in the market, and industry happenings is gathered from the print media and wool buyers.

### Market

- The farmers interviewed have no idea of the market, its wants, needs or other requirements.

### Promotion

- Brand promotion and brand marks in the past were seen as being valuable to the marketing of wool.
- All of the farmers interviewed believed that Fernmark should be kept as a brand.
- Education and promotion of strong wool in the international market is seen as being necessary and important.



## Other Factors

- The farmers interviewed believe that if the industry and market continue as they are at present, then the wool price will decline further.
- Only two farmers surveyed knew about the newly formed Wool Industries Network, which is being set up to look at the issues of the strong wool industry.

A copy of the survey can be found in the appendix of this report.

### Volume of clean strong wool exported (tonnes)

											Total	
<b>2001</b>	624	53,240	328	3,667	4,965	8,295	26,699	8,841	77	20,621	317	127674
<b>2002</b>	646	47,051	193	3,763	4,992	4,525	29,842	9,704	56	18,131	136	119039
<b>2003</b>	498	45,442	189	3,719	6,054	5,865	21,512	10,292	43	15,794	315	109723
<b>2004</b>	465	45,625	121	3,810	4,037	4,739	28,090	10,021	199	16,141	138	113386
<b>2005</b>	593	43,141	247	3,061	4,877	6,198	22,305	8,355	161	17,566	94	106598
<b>2006</b>	563	44,467	350	3,985	5,780	4,050	30,370	6,806	15	18,644	163	115193
	<i>Africa</i>	<i>European Union</i>	<i>Eastern Europe</i>	<i>Mediterranean</i>	<i>Middle East</i>	<i>North America</i>	<i>North Asia</i>	<i>Pacific</i>	<i>South America</i>	<i>Southern Asia</i>	<i>Western Europe</i>	

The change of volume purchased between 2001-2006 is a decline of 12,481 tonnes.

Data information sourced from Meat and Wool New Zealand



## An International Wool survey Report

At the International Wool Trade Organisation Congress held in May 2006, the "Interior Textiles Market Research" paper was released. International manufacturers, retailers and textile associations were interviewed face to face, and end consumers were surveyed by phone. This survey involved 13 countries in total.

The following information was collated from the carpet section of the survey, as this is the most relevant to the strong wool industry in New Zealand.

### Market

- The world carpet market is split into 'premium' and 'value-for-money buyers'.
- Western regions are shifting production into Asia because of low labour costs.
- There is an increasing demand for rugs as the trend for hard flooring increases and eastern countries prefer rugs due to climate.
- Broadloom flooring is facing hard times, as demand for wool carpets decreases and the trend /fashion is seen in synthetic fibres, especially rugs.

### Purchase Behaviour

Results from the survey showed that for domestic buyers, 55% of their decision to buy carpet was rational and 45% was emotional, while in the contract market survey, results showed that 90% of the decision to buy carpet was rational, and only 10% was emotional.

Domestic Requirements (in order of importance)

1. Design and Colour For the Premium segment THE purchase trigger
2. Price For the value-for-money segment THE purchase trigger
3. Material
4. Quality and Durability
5. Maintenance and Care
6. Safety and health Not seen as relevant

Contract Requirements (in order of importance)

1. Material
2. Maintenance and Care THE purchase trigger
3. Safety
4. Quality and Durability
5. Design and colour
6. Price
7. Health and Environment

### Purchase Information and Brand

Domestic consumers look to sales staff, magazines, TV programmes (make over shows), friends and family and direct mailing for information on carpet. Point of sale information is influential in sales.

Contract buyers use trade fairs, word of mouth, architects, specialised magazines and suppliers for information on carpets.

Both groups found the internet useful for information, but not for purchasing.

<sup>1</sup>Information from Gfk Gruppe Ad Hoc Forschung I.W.T.O Congress Cairo 2006 "Interior Textiles Market Research" May 2006



Only premium buyers in the domestic market were influenced by brand. On the other hand, manufacturers and retailers preferred the reassurance of a quality standard which could be taken as a 'sales argument for consumers'.

### Promotion

- Little has been done in the last few years to promote wool in the domestic sector.
- The image of wool depends highly on the knowledge of the consumer.
- Aspects of the lack of "Easy care / Maintenance" of wool, distracts architects and designers away from wool.
- There is a need to promote the rational and emotional benefits of wool carpet.
- There needs to be education of consumers via a world wide marketing campaign.
- Trend for consumers to want natural products but they need to be made aware of the benefits.
- A lack of information leads to a negative impact on the image of wool.

### Industry issues

- There is no ground breaking technology expected in the future.
- Synthetic carpets will continue to dominate the market.
- There is a need for competent sales staff.

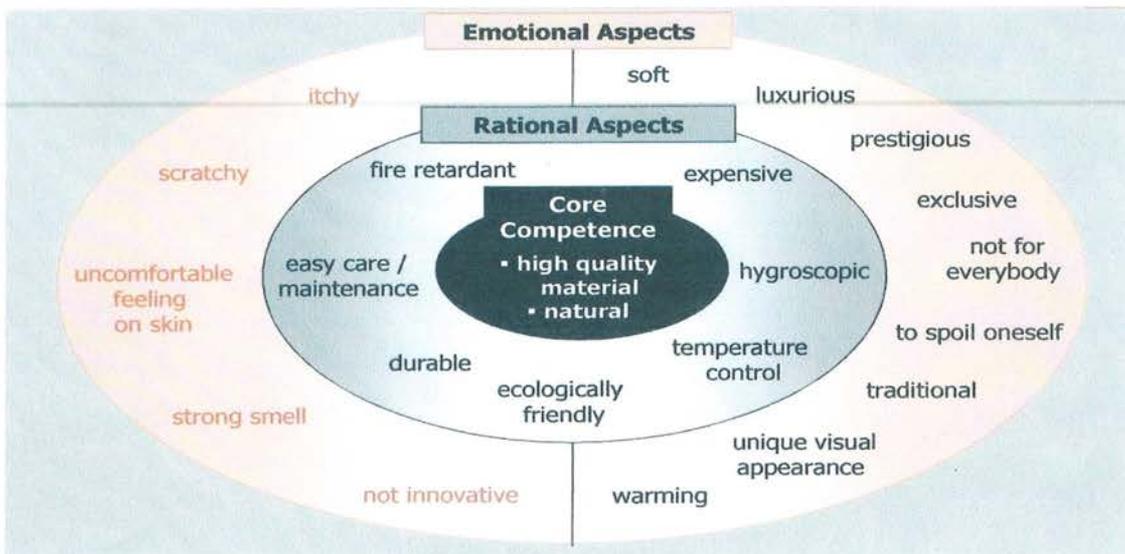
### Other Factors

- Prices for wool as a raw material are seen to be stable, whereas synthetics are increasing due to the cost of raw material (petroleum).
- The trend for consumption of carpet will continue but it is not so certain if it will be for wool or synthetic.

In general wool fulfils all necessary preconditions to be a widely used material. It is functional, rational as well as emotional.

### Summary

- The Brand Core of Wool -



## Conclusion for Strong Wool

Currently the strong wool industry is seen to be in some form of disarray. This goes from the grower right through the industry and into the international market. A series of factors both locally and internationally has led to this situation. Factors that have been recognised through all sectors as being issues for the industry are:

- Lack of education of retailers and promotion of strong wool in the international market place to end consumers.
- Lack of engagement between the industry sectors, teamwork to co-ordinate exchanges of information and develop a more integrated approach to the wool industry.
- Lack of communication both ways between all levels of the industry.

Education and promotion of strong wool products is of the utmost importance for the survival of the strong wool industry. Strong wool farmers want a portion of the wool levy that is currently being paid to Meat and Wool New Zealand, to be used for education and promotion in the international markets, even though this is currently not possible due to a mandate. In the vote to disband the Wool Board and the formation of Meat and Wool New Zealand, there was a mandate passed not to spend any levy payer money on wool promotion and marketing.

<sup>1</sup>In the financial year ending September 2006, Meat and Wool New Zealand forecast expenditure at:

Beef \$11.9 m with 38% (\$4.52 m) being spent on Market Development.

Sheep \$16.3 m with 39% (\$6.37 m) being spent on Market Development.

Wool \$12.3 m with 0% being spent on Market Development.

The value of New Zealand exports (excluding re-exports) in the wool sector for 2005 (provisional) was \$971.8 m.

Between June 2001 and June 2006 there was a total decline of 12.481 tonnes of clean strong wool exported.

In today's farming environment, strong wool sheep farmers are more driven to carcass and/or higher fertility based production gains at the cost of wool quality. This has tended to reduce the wool quality and quantity as animal selection is based on conformation of the animal and not the quality of wool. A good price for wool is still required and fleece presentation is still important, but the need to stop black fibres and the microns increasing is no longer of real consideration. As the microns and black fibres increase the ability to blend the wool becomes more limited and the end uses more restricted. This in turn affects the overall price of the product. Many farmers have not been made aware that this is an issue. The formation of a strong wool industry group is important to get a communication chain going and for farmers to be better informed of industry issues.

<sup>1</sup> Information from Meat and Wool New Zealand 2004-05 Annual Report

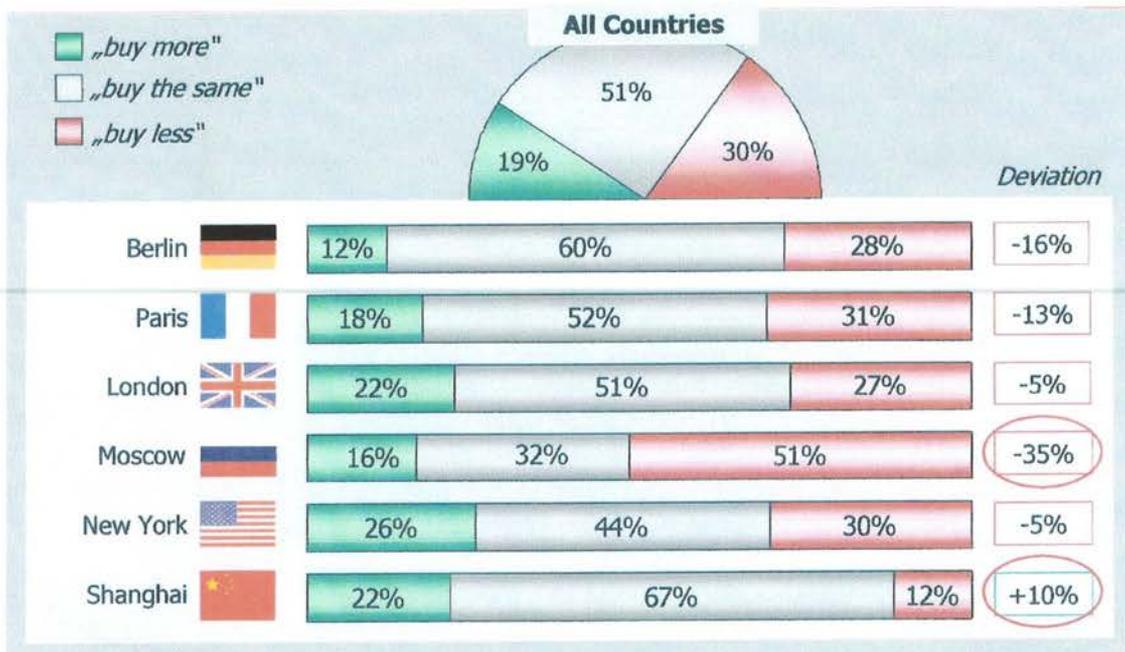


The lack of communication between all sectors in strong wool- from the grower to the international market - means the farmer doesn't know what the requirement for the market is, or even if the product is what the market wants or needs. Information from the market is also not conveyed back to the grower.

An example of team work, communication and end product understanding, is a local meat company. Farm suppliers are an integrated part of the team. Producer meetings are held, newsletters sent out, and there are opportunities to visit the company and witness first hand the processing from beginning to end. Farmers see what product is going to export, they informed on how it is being marketed and the destination for the product. Animal health problems and information are shared. The farmer fully understands the requirements and is very much part of the process.

If the status quo remains for the way in which strong wool is sold, and the way industry communicates with its peers, and if the New Zealand strong wool industry fails to educate, inform and promote wool to the international markets, then the New Zealand strong wool industry will ultimately fail. The farmers' right through to the exporters need to be more proactive and open in their communication. Strong wool farmers need to be prepared to move out from behind the gate, get information and take an active part in the process of selling their wool.

Carpet  
- Future Consumption of Wool Carpets -



## Where to from here?, Recommendations

### Promotion and Education

For New Zealand strong wool growers to start education and promotion of strong wool in the international market, one or more of the following will need to take place:

- Get a mandate change at Meat and Wool New Zealand so that education of end-users and promotion in the international market can be funded from grower levies.
- Form a grower group to better communicate between themselves and the market and be prepared to fund the projects themselves.
- Reduce the wool grower levies being paid to Meat and Wool New Zealand and pay a levy into the grower group to fund projects for promotion, marketing, communication etc. Farmers would need to put in a submission to Meat and Wool NZ to get this change.

There is a real need to re-establish New Zealand strong wool in the international market. Issues to be looked at are:

- Education and training of international contract buyers and retail sales persons about the products.
- We need to work on the emotional benefits as well as the rational and functional characteristics of wool.
- A quality mark such as Fernmark requires promoting again as this helps give quality assurance to retailers and end consumers.
- Development of products to meet the wants, needs and wishes of the end consumer. If the world trend for is rugs over broadloom carpet, we need to make more woollen rugs.
- The internet was noted as a source of information for both the retailer and the consumer about wool products. A New Zealand web site should be promoting and addressing the 'feel-good aspects' of wool.

Without promotion and education New Zealand strong wool will ultimately lose its place in the wool market.

### Communication

Growers need to become more pro-active when selling wool. Questions need to be asked about the destination of their wool and what the market is requiring. Wool brokers and wool buyers' need to communicate to growers the trends and potential requirements in the market place. As an industry we must remember we are ultimately selling our product to the end consumer, so what are their wants and needs. If any part of the communication chain fails to convey these requirements, it leads to the end consumer moving away from wool products.

### Warehousing Wool

Consideration needs to be given to warehousing wool. While single-desk selling is not currently an option, a majority of strong wool could be sold this way. This would allow the ability to hold larger volumes of wool in one location, create better blending opportunities for lines of wool, thus creating a more consistent product for the market, which in turn benefits the grower and the buyer. This point of contact would improve communication between the international sector and New Zealand.



## References

McKinsey Report  
Meat and Wool New Zealand Annual Report 2004 -2005  
Meat and Wool New Zealand Economic Service  
Gfk Gruppe Ad Hoc Forschung I.W.T.O Congress Cairo 2006 “interior Textiles  
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## Acknowledgements

The industry members interviewed.  
The farmers interviewed and surveyed.  
Meat and Wool New Zealand  
Federated Farmers  
Cora Baillie

## Appendix

Farmers Survey Questions





9. Do you use new wool packs? Y / N
10. Have you cut shed hand numbers to make savings? Y / N
11. Does presentation still matter greatly to you? Y / N  
Why?
12. Is wool still valuable to your annual income? Y / N
13. Do you think your wool levies are being well spent? Y / N  
Why?
14. Do you support the newly formed Wool Industries Network?
15. Where do you get your wool information from?
16. Do you think strong wool farmers should form a group? Y / N  
If yes, what type of group, eg lobbying, information, co-ordination, industry or something else.

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**Background information**

**Name:** .....**Phone:**.....

**Fax:**.....

1. What is your martial status?
2. What is your highest level of education completed?
3. How many years have you been farming?
4. How many people do you employ?