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SUPPLY CHAIN DEVELOPMENT

THE AUSTRALIAN EXTRAFINE MERINO EXPERIENCE

Are There New Opportunities to Develop New Markets for Superfine Wool?

Traditionally over 90% of Australia's superfine wool is sold through the auction system and growers are reluctant to look for new and better means of marketing their wool. The traditional superfine customers have also supported the auction system even though critical of its volatility.

Over the last 10 years production of superfine wool 18.5 microns and finer has increased by 60% and represents nearly 6 % of the Australian clip.

The average micron of Australian Superfine Wool Growers Association (ASWGA) members is now 17.2 microns and trending finer. Price levels over the past 2 seasons have largely not met Cost of Production or provided a reasonable return on capital invested.

There is general dissatisfaction with the present situation but at the same time a desire to seek new market opportunities and develop new products.

Our survey showed that a reasonable proportion of the members were interested in Supply Chain developments. These growers recognise the importance of being able to relate to the final customer at retail level. They also want to have the satisfaction of knowing that their expertise in producing a luxury fibre is appreciated by the wearer and that the customer will return to purchase more superfine garments.

They also hope to see their brand recognised alongside the prestige garment brand and to relate their story to the consumer. Naturally they hope for a financial reward for their efforts.

Clearly ASWGA membership believes that there are new markets and new products for superfine wool and that they are urgently needed to compliment the core market of high fashion men's suits which must always be protected and improved. Women's wear, next to skin knitwear and active leisure wear are all seen as opportunities.

This optimism overrides the concerns of growers facing continued low returns and while they are looking at other more profitable enterprises, true superfine growers want to continue to do what they do best: that is to continue to produce high quality superfine wool but work closer with the processing pipeline towards the final consumer.

We are therefore convinced that there are new market opportunities as well as better ways to service and promote our long established markets. The challenge is how to achieve the desired goals and what are the resources required?

A Short History of the Steps Taken to Develop a New Marketing Strategy

In December 1999 ASWGA held a think tank meeting to consider future directions.

It was obvious that a more proactive approach to marketing superfine wool was needed particularly as production was increasing due to market demands for softer, lighter, finer fabrics. It was also recognised that the present structure of ASWGA was not sufficient to undertake the initiatives required.

As a result a new company Australian Extrafine Merino was formed with the ability to undertake commercial ventures and with the emphasis on superfine wool 18.5 microns and finer.

During 2000 extensive consultation was undertaken with the Woolmark Company to develop possible direct marketing opportunities for direct supply chain links using the ASWGA Ram's Head Superfine Brand that had been registered globally for all classes from greasy wool to final garments.

In order to determine possible customer support in November 2000 a study tour in conjunction with Woolmark visiting clients in Italy and Japan was undertaken. From this it was determined that there was support, not universal, from processors and manufacturers to develop supply chain links through to retail maintaining the integrity of the wool using the brand as a co- brand with designer and retail labels.

Japan being a major consumer for superfine wool garments using both Italian and Japanese woven cloth provided the best opportunity for determining if supply chains could be established. An added incentive was the desire in Japan to provide a story about the origin of the wool to retail customers.

During 2001 and 2002 work continued particularly with support from Woolmark to develop a model that could be put to ASWGA members for the development of a supply chain initially focusing on retail in Japan. This led to the production of a submission to growers seeking support in principle for a new marketing strategy.

The Future is in Your Hands

A Vision for Australian Superfine Merino

- 1. To build the world's finest fibre brand, promoting the values of luxury, comfort, exclusivity and authenticity.**
- 2. Produced by a dedicated quality assured and fully integrated grower base.**
- 3. Demanded throughout the wool supply chain and accredited to the highest standards**
- 4. Used and supported globally by the most prestigious textile and apparel designers**
- 5. Actively promoted and creating profitability throughout the entire Australian Superfine Merino value chain.**

The Strategy

Create differentiation for Australian Superfine Merino through the development of a targeted, premium consumer Superfine Merino brand platform, supported by an accreditation programme throughout the pipeline and driven by buyer demand for branded product.

The Programme

The programme aims to create a faster growing and more profitable business for Australian Superfine Merino producers and their textile partners. The major components are:

1. Establishment of a substantial marketing fund through voluntary collective contribution.
2. Development of a premium brand image and market positioning for Australian Superfine Merino.
3. Selection and accreditation of the supply chain based on objective quality performance criteria.
4. Creation of buyer demand for branded product throughout the supply chain.
5. Active involvement of licensed industry participants in product development, trade marketing and branding.
6. Direct communication and range development with designers, garment brands and retailers.
7. Retailer staff training, joint consumer promotion and point of sale activity with leading brands and retailers.

This proposal was widely canvassed with ASWGA members and overseas clients seeking in principle support during 2001.

Growers found the concept difficult to come to terms with and felt that implementation would be difficult, particularly being concerned that it would be hard to determine a direct return on investment.

Overseas reaction was mixed with support in most countries with the exception of Italy where it was largely felt that this was not an area for growers.

AWI Mark One expressed interest in helping and providing funding. However this did not proceed and the management changed. The result unfortunately was a loss of momentum.

Work continued with Woolmark who have provided considerable resources in researching possibilities and determining the prospects for developing of the superfine brand. They conducted a survey in Japan looking at brand recognition and design comparing the ASWGA Ram's head brand with a new more modern styled brand which proved to be more acceptable in Japan. As a result the new AEM Extrafine brand has been registered and launched. It is jointly owned by AEM and Woolmark and designed to be used in supply chain developments.

In 2003 the whole project was reassessed and a decision made to run a Pilot Project with two supply chain operations in Japan funded by voluntary contribution from ASWGA members.

Members were asked to contribute 1% of their gross proceeds of 18.5 micron and finer towards funding the two Pilot projects. AEM entered into a Management Supply Agreement with Woolmark to oversee and supervise the project in Japan working with the two groups and undertaking to provide an assessment of performance at the conclusion of the Project.

In April 2004 AEM together with Woolmark announced the launch of the venture to promote branded Australian Extrafine Merino Wool using the new AEM Trade Mark on a range of high quality menswear products.

The projects were:

Toabo – Onward Kashiya – “Madame Gres”

Wool sourced through specialist superfine Broker Australian Wool Network and combed by Italian topmaker Schneider, with spinning and weaving performed by the well known Japanese firm Toabo. The specialist Japanese apparel maker Onward Kashiya aimed to distribute 2000 to 3000 suits under the “Madam Gres” brand name with price ranges from 120,000 to 300,000 yen per suit (A\$1450 to A\$3650).

Toyobo – Miyuki- Strathbogie & Toyobo – Chodai – “High Brain”

Wool sourced and purchased by Itochu, spun by the renowned Japanese spinner Toyobo and woven by Miyuki for the Miyukitex Ourearth “Strathbogie” range made up by Ohga for suits in the 98,000 to 108,000 yen per suit range (A\$1200 to A\$1350).

The “High Brain” range involved the weaver Chodai for bespoke tailors, mainly for suits and formal wear orders for Department stores.

The programme was designed to run over the Autumn/Winter sales period from September 2004 concluding at the end of February 2005.

Included in the funding were resources for point of sale promotional material adding information about the source of the wool and the brand.

Assessment of the Pilot Project

Results of sales have been received and the process of assessment and communication of results is currently being undertaken.

Preliminary Analysis - Key Conclusions

1. Marketing initiatives and activities under the Pilot Programme

- The Strathbogie/Miyuki range. Toyobo -yarn to Miyuki –fabric to OHGA/Miyuki was sold in Major Department Stores in Japan through approximately 90 outlets.
- The “Madam Gres” range through Toabo yarn/fabric to Onward (“Madam Gres”) was also sold through Major Japanese Department stores.
- In both cases the partners in the project provided additional funds thus the AEM investment was the catalyst for significant leverage of funding overall with a total investment by the partners of 18 million yen. This provided very good leverage from the 4 million yen provided by AEM.

2. Sales Results – Assessment of Programme Effectiveness

- The project saw an increase of 67% in the number of AEM branded garments sold during the A/W season
- The estimated impact of superfine wool usage from this increase is calculated to be of the order of 9 tonnes clean
- The project must be assessed against the overall difficult climate for high quality men’s suits in Japan over the period. It does appear to have made a positive impact on the promotion of the top end men’s suit market for Australian Superfine Wool.
- No increase in the unit price of the garments was achieved but the suits were at the top end of the price scale for exclusive custom made suits or made to measure suits
- The AEM Ram’s Head branding is expected to justify the price to consumers and increase the volume of sales rather than pushing the unit prices higher.

3. Market and Stakeholder Feedback

a) Toyobo – Miyuki – Ohga

- Satisfied with the impact of the programme and emphasized the effectiveness of this kind of vertical collaboration.
- Miyuki believes the new brand was well understood by their customers as a symbol of differentiated product policy (such as fusion of “bulkiness” and “softness”)

- Price pressure from retailers in formal men's wear markets will increase. Programmes such as the AEM Ram's Head brand add appeal and differentiates the fabric. It is essential to continue these programmes to defend and protect the future of the top end of the luxury men's suit market.
- As this is the first year recognition of the brand is still low but it does have promising future prospects if continued.

(b) Toabo – Onward

- Operating at the very top end of the price range the market in Japan has been very difficult. The brand has been well received and should be continued.
- Toabo has been using the brand for some years being the first to introduce it and believe without such continuous investment the sales at the top end sector cannot be maintained.
- They believe that the campaign must be continued.

4. Recommendations from the Participants

- It is highly recommended that ASWGA/AEM continue their support for the branded programme in 2005/2006 in order to sustain or raise the scale of the campaign to be continued by Toyobo and Toabo with their partners, and to bring a more visible impact upon the demand for Australian Superfine Wool in this highly exclusive market sector.
- In the future, additional funding support to specific retail partners could be considered as it will help construct even stronger vertical collaboration to establish higher consumer recognition of the AEM Brand in a shorter period of time.

AEM Assessment of the Report and Future Operations

AEM is now considering the report and its recommendations.

- The 72 Members of ASWGA who provided the funding for the project are being provided the results for their consideration. They have received no return on that funding directly but were prepared to invest in the project to determine future marketing possibilities.
- It may not be possible to repeat the Pilot. It does however indicate that a vertically integrated chain to retail properly resourced can be achieved with the prospect of a return on investment and that over time the returns can be better secured.
- Any future operation would require grower identified superfine wool from farm to retail. This does have the advantage of providing more targeted promotion through stories behind the wool (e.g. Strathbogie) and giving directly assessable returns for individual growers to judge effectiveness.
- AEM is not in a position to act as a principal in future supply chains as it does not have the resources or expertise to assemble and handle wool.
- AEM can act as a facilitator in establishing supply chains but requires partners who can receive assemble and place the wool into the system. This may be through Brokers, Exporters or Topmakers.
- AEM can assemble and provide promotional material to enhance the end products and the use of the AEM brand can over time become a valuable asset to help identify and promote members superfine wool.

Other Supply Chain Initiatives

AEM has been for some time working with other potential partners to develop possible supply chains.

These include working with Chargeurs Superfine to develop supply chain linkages with prestige UK weavers with Internationally famous brands and reputations for excellence.

Looking with the help of AWI at possibilities with major companies in China particularly looking at new products in the women's wear, active leisure wear and smart casual area

Challenges to the Successful Implementation of Supply Chains

The major concern that emerges is that growers are tentative in moving away from established practice.

There is at present a lack of clear direction and a mission to overcome the problems largely due to lack of knowledge.

- Supply chains must start at retail determining the desired product and its market potential.
- Pricing starts at this end and works back finally to the greasy price. There is a lack of knowledge on how to achieve this.
- Similarly specifications must relate back from garment to greasy wool in order to achieve correct sourcing.
- Growers have to commit forward for several years to provide security and continuity of supply in order to get partners to commit.
- Growers are used to comparing spot prices and must learn a different way of operating.
- Any supply chain operation must have resources to promote the brand and constantly upgrade this material.
- While initial work has been at the top end of the market with men's suits this creates problems in that the specifications in the raw wool are difficult to achieve. Looking at new markets such as 17 micron next to the skin knitwear that require more achievable specifications opens up new opportunities.
- Being prepared to start in a small way first seems sensible.
- Growers should not see supply chains as a replacement for the auction but as an adjunct to broaden their business opportunities and to spread risk. Only a portion of a growers clip will be suitable.
- Ideally growers desire a structure that enables the identification of the wool with the Trademark Brand allied to the Station Brand to be easily identifiable so that sourcing can be linked through the selling system into the pipeline and through to retail.

Conclusion

AEM is at a critical point it can decide to go forward looking for opportunities and partners or else it must consider if it should continue.

AEM has correctly been challenged in that it is not crystal clear defining its objectives and this will be essential for successful operations.

The Pilot Project has shown that supply chains are possible and better returns possible over time.

One of the major difficulties is the diverse structure of AEM with members operating in 7 superfine regions from the Queensland border to Tasmania, the lack of an adequate capital base and a diverse decision making process. Contrast this with the highly successful supply chain developments being undertaken by Tasmanian Broker Roberts Ltd. with the Tasmanian Merino Brand where a strong capital base, expert knowledge with downstream customers and a tight administrative structure.

Future success will depend on having a group of committed growers and willing partners.