



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*



International Food and Agribusiness Management Review
Volume 14, Issue 3, 2011

New Zealand Wool Inside: A Discussion Case Study

Daniel Conforte^a Samuel Dunlop^b and Elena Garnevska^c

^a *Senior Lecturer Agribusiness, Institute of Food Nutrition and Human Health, Massey University,
Private Bag 11 222, Palmerston North, Manawatu 5451, New Zealand.*

^b *Student, Institute of Food Nutrition and Human Health, Massey University, Private Bag 11 222
Palmerston North, Manawatu 5451, New Zealand.*

^c *Lecturer Agribusiness, Institute of Food Nutrition and Human Health, Massey University, Private Bag 11 222
Palmerston North, Manawatu 5451, New Zealand.*

Abstract

The case study is aimed at discussing the strategic and organizational implications of recent value adding and branding initiatives in New Zealand's strong wool industry with special attention to decisions by a group of farmers. The objective of the case study is to discuss (a) the value of past and current generic promotion campaigns in the wool industry; (b) the viability of recent private value adding and branding campaigns, as well as of the organizations behind such initiatives; (c) the likely impact of the initiatives in the economy of the farmers; (d) if farmers should invest in any of the value adding companies or not (d) if farmers should engage collectively in supporting any of the initiatives, and if so how. This case study can be used in advanced undergrads, graduate and executive classes.

Keywords: New Zealand, wool, ingredients marketing, branding, wool carpets, case study

^①Corresponding author: Tel: + 64 6 350 69099 Ext. 81415
Email: D.Conforte@massey.ac.nz

S. J. Dunlop: s.j.dunlop@hotmail.com
E. Garnevska: E.Garnevska@massey.ac.nz

IFAMA Agribusiness Case 14.3A

This case was prepared for class discussion rather than to illustrate either effective or ineffective handling of an agribusiness management situation. The author(s) may have disguised names and other identifying information presented in the case in order to protect confidentiality. IFAMA prohibits any form of reproduction, storage or transmittal without its written permission. To request Teaching Notes, order copies or request permission to reproduce, please contact the IFAMA Business Office.

Introduction

After two decades of decline in wool prices, New Zealand farmers, disillusioned with many years of generic wool advertising, recently voted to stop financing industry good promotional activities. Meanwhile, three companies had started their private value adding and branding initiatives, aimed mostly at the USA and European carpet and rugs markets. Elders Primary Wool (EPW) had created a network of alliances with retailers and manufacturers in the USA to license their Just Shorn wool brand. Wool Services International (WSI) was exporting scoured wool under several brands. Wool Partners International (WPI), the owner of the Wools of New Zealand brand, had recently put forward a prospectus inviting farmers to invest in a new wool marketing company with the goal of consolidating 50% of the country's strong wool. Although some farmers and industry participants viewed these private marketing initiatives with optimism and as a sign of vitality in the industry, others thought that the industry was still too fragmented and that a more unified approach was required. Yet another view was that farmers had little to contribute to, and gain from, any sort of international branding and value adding efforts, and that they should focus on what they do best: farming.

It was late spring 2010, and the Wairarapa hills of the Northern New Zealand Island were still looking green. The Wairarapa Wool Farmers Group had been meeting with representatives from the three main wool marketing groups to understand more clearly what exactly each one was proposing and also to assess the capacity of the organizations behind each group. It was a Saturday late afternoon and WPI was explaining their investment proposal (see a summary of the prospectus in Exhibit 1). When the meeting was over one farmer expressed the general spirit.

“There is a shared view that something must be done to revive the wool industry but there is not a clear consensus about what, if anything, the farmers should do. The wool industry is more complicated than it seems and it is not clear if any of those branding initiatives out there will make a difference back at the farms. There are too many issues to consider and this discussion is far from over.”

At the end of the meeting the farmers divided themselves in three groups; each group was assigned to study one company and its respective branding value adding and branding initiative. They had agreed to meet again in two weeks when each group would present the pros and cons of each initiative to the plenary. Then they would decide what was best for the farmers. Wool farmers in New Zealand were hard working, ingenious and proud, but yet had been struggling financially for many years. Most were earning as little as NZ\$ 12,000¹ from wool per year and many had been carrying substantial debts. They would not give up without a fight. Sam Poulton, the president of Wairarapa Wool Growers, explained the challenge ahead.

“The question here is if we should let the market forces decide if these initiatives are good for us or if we need to step up as a farmer group and take some sort of leadership role. We have agreed to meet again in two weeks, lock ourselves up and throw away the key until we make a decision.”

¹ US\$ 1 = NZ\$ 1,33

New Zealand in the World of Wool

Wool was used for manufacturing apparel and interior textiles such as rugs and carpets. Based on fiber diameter, wool was classified in three types, fine (<24 micron), medium (25-32 micron) and strong wool (>32 micron). Fine wool accounted for 36% of total world production and was used for apparel manufacturing. Strong wool was used for interior textiles such as carpets, bedding and upholstery and accounted for 42% of production. Australia was the largest producer of fine wool with 85% of its production being Merino wool (< 25 μ m). In contrast, 90% of New Zealand's clip was strong. Strong wool was traded either raw (greasy or clean), as intermediate processed products such as carded and combed wool and yarns, and also as finished consumer products such as carpets and rugs. New Zealand's wool clip accounted for 30% of the world's strong wool output.

The wool industry had traditionally been a major contributor to the New Zealand economy. Sheep were raised in most of the country's agricultural regions with the main production areas being the high countries of Hawkes Bay, Wairarapa and Manawatu/Horowhenua in the North Island, and Nelson/Marlborough, Canterbury and Otago/Southland in the south island. New Zealand had 32 million sheep in 2010, down from a high of 70 million in the 1980's. Between 1990 and 2010 around 3.5 million hectares of land traditionally used for sheep and beef production had been converted to dairy, forests or urban development, causing the country's wool production to drop by 48% and exports by 34%.



Figure 1. New Zealand's main sheep production regions.

Source: MAF (2011).

The leading wool producing countries were Australia, China, the Commonwealth of Independent States (CIS) and New Zealand. On a clean weight basis Australia was the world's largest wool producer followed by China, New Zealand and the Commonwealth of Independent States (CIS). Together they accounted for 66% of global production (See Exhibit 2 for data on wool production).

Australia and New Zealand were the leading exporters of raw wool with 45% and 17% of the world exports respectively. In terms of imports China had increased its share of global imports considerable between 1990 and 2009 and became the most significant importer of raw wool accounting for 49% of total world imports. India had also increased its share to 10% and was the second largest importer (see trade figures in Exhibit 3).

New Zealand's exports, in value terms, were 77 % raw wool, 12% yarns, and 10% carpets and rugs; the rest was carded and combed wool and woolen fabrics. In volume terms, 62 % of raw wool exports were scoured (cleaned) while 33% was exported greasy and the remaining 2% was slipe wool (taken from the hide of the sheep after slaughtering). Over 50% of New Zealand's raw and semi processed wool went to Asia while close to a third went to Western European countries. The single largest export destination was China which took 36% of New Zealand's raw wool exports. Other important markets were India, UK and Italy. China and Australia were considered as two major conversion markets for they imported raw wool, further processed it, and on exported. It was estimated that almost 50% of the New Zealand's strong wool clip in 2009, in one form or another ended up in the UK and Europe. The UK consumed in total 55-60 million kg of wool annually and accounted for 11% of NZ's raw wool exports. Australia and New Zealand together consumed 20 million kg of New Zealand's strong wool, the majority of which went into broadloom carpet. US market consumed approximately 13 million kg annually, mainly as yarn or finished carpets.

Due to the competition of synthetic fibers, the global wool industry had witnessed decades of production decline. Between 1990 and 2009 the world's wool production went down 45% and global trade down 30%. For the first time in 100 years the production was less than two million tons in greasy equivalent. While strong wool prices in New Zealand remained largely stagnant from 1990 through to 2009, input costs such as shearing increased by 30% resulting in a 60% decline in returns per stock unit for farmers (See Exhibit 4).

The Strong Wool Value System

From its raw initial form to the manufacturing of the final product, wool had to undergo either woolen processing or worsted processing. Strong wool, which was primarily used for the production of tufted carpets, underwent a woolen processing. The main steps in woolen processing for tufted carpet manufacturing were scouring, blending, carding, dyeing, spinning and twisting, and fabric formation or tufting (Exhibit 5). The margins along the chain varied with the yields obtained from wool, with the cost of each process and with prices (Exhibit 6).

The wool value system in New Zealand (Exhibit 7) started with the more than 12,000 farmers spread out around the country. Historically farmers would sell their wool through auctions (See Exhibit 8 for an example of a sales account). In 2009 approximately 40% of wool was auctioned, 44 % sold directly and 16 % was sold as slipe wool (the wool taken from the hide of the sheep after slaughtering).

The two major auction brokers were Elders Primary Wool (EPW) with an estimated 42 % market share and Wool Partners International (WPI) with 32%. Most of the wool sold privately was purchased by independent wool merchants that cultivated long term relationships with growers on a regional basis. Some exporters and manufacturers also had procurement divisions that dealt directly with growers.

The New Zealand exporting sector had been consolidating over the years. In 2010 there were some 35 exporters; five or six of them controlled 80% of exports. Wool Services Internation-

al (WSI) was the largest with 30-35% of the market; Masural had a 15-20% share, Brooks-banks 15-20%, Fuhman 10-15%, WG Robinson 10%, and Bloch and Behrens had around 6-10%.

The two major scourers in the country were Cavalier Wool Scourers with approximately a 60% share of installed capacity and New Zealand Wool Services International (WSI) with 35%. Wool Services International was the only exporter which had its own scouring facility; the other exporters outsourced the scouring process. The exporters of yarn had the wool spun locally on a commission basis. Raw wool and yarn was sold to foreign processors or importers who then on sold to wool processors or manufacturers.

There two leading carpet manufacturers in New Zealand were Godfrey Hirst and Cavalier Corporation which together accounted for over 80% of domestic production. Both companies owned spinning mills from which they met their own yarn requirements. Cavalier Corporation was also involved in scouring, being a 50% shareholder of Cavalier Wool Scourers. Both companies sold most of their New Zealand produced carpet on the domestic market. Exhibit 9 presents a description of the leading carpet manufacturers in New Zealand.

Overseas, the organization of the importing business varied by country with the structure of the industry in each country. Such differences explained why the wool exporters had a different organization and used different channels in each country. See Exhibit 10 for a view of how the exporting process was organized differently to different markets.

The Market for Interior Textiles

Synthetic fibers represented the greatest competition to wool in the carpet and rug industry accounting for approximately 98 % of consumption in 2009. The major synthetic fibers used in carpet and rug production were nylon, polypropylene, and polyester. Nylon was used in 65 % of carpets sold in the USA, while polypropylene was used in 30 %. While the consumption of all textile fibers had increased significantly worldwide, from approximately 15 million tons in 1960 to 70 million tons in 2009, the consumption of wool had declined since the 1950's. The share of synthetics fibers increased from 10 % in 1960 to close to 60 % in 2009. Over the same period wools share declined from 10 % to less than 2 %.

Carpets and rugs made from wool were considered as having some superior attributes than those made from synthetics. Wool was recognized as having a deep, rich look and feel that had still not been fully matched by synthetic products. Wool carpets wearing performance was excellent, if treated properly, and recent research had shown that it was capable of absorbing and binding air containments such as formaldehyde, sulphur dioxide and nitrogen dioxide. Wool also had the capacity to absorb large volumes of water which enabled wool carpets and rugs to modify indoor humidity. In addition, wool was recognized as creating a superior quality carpet when used in certain textures and styles such as loop pile; it also allowed for more complex color patterns. Wools natural, renewable, and biodegradable nature was perceived as becoming increasingly important to consumers.

From the consumers perspective there were also some disadvantages associated with wool carpets and rugs. Wool carpets and rugs required greater care in terms of stain removal and minimizing piling. They were also more prone to fading if not protected from UV light and tended to wear down, which could result in bare patches in high wear areas. Another issue was that the ability of wool products to hold very high volumes of water could made them

prone to mold and shrinking. This tendency towards shrinking made them unsuited for using in modular carpets, which were growing in popularity, particularly in the commercial sector. From the carpet manufacturers perspective there were some disadvantages in using wool. One issue was that it was more expensive and complex to produce the yarn relative to synthetic fibers because it required more labor and processing steps. It was also more expensive to dye than synthetic yarn. Another problem was that it had a much lower tensile strength which limited the speed at which manufacturing equipment could operate. Output could be twice higher from machines running synthetic yarn than wool. From a price perspective, synthetic fibers had a lower cost than natural fibers such as wool and cotton (See Exhibit 11 consumption and prices of different fibers).

The USA Market for Carpets and Rugs

The USA was the largest market for interior textiles with a total consumption of 1040 mm² (million square meters) in 2009 and an estimated retail value of US\$ 11.69 billion. Wool products accounted for approximately 2 % of total sales volumes. The USA was also the largest importer of wool floor coverings (See Exhibit 12). New Zealand strong wool was used in 45% of all wool carpet consumed in the US.

The USA carpet manufacturing sector was dominated by two companies, Mohawk Industries and Shaw Industries, which together held a 60% market share. Two medium sized manufacturers, Beaulieu and Dixie, accounted for another 20 % of the industry while approximately 25 to 30 smaller manufacturers made up the rest. Shaw Industries and Mohawk each had sales in the range of US\$ 4 to 5 billion while Beaulieu's were around US\$ 1 billion. They were vertically integrated companies with their own synthetic fiber extrusion plants and trucking fleets. (See Exhibits 13 and 14 for Mohawk financial statement and share price history). Most of the wool carpets sold in the USA were imported and sold under private brands. Godfrey Hirst was considered to be the largest provider of wool tufted broadloom carpets in the USA.

The carpet retailers could be divided into three main categories; the large national chains (20% share), the companies affiliated with buying groups (30% share), and the independent stores with 50% share. Of the national chains, the largest ones were Lowe's and Home Depot. These large chains made companywide buying decisions giving their individual stores no flexibility as to what they stocked. Wool carpets made up 0.2% of the national chains inventories. Of the companies affiliated with buying groups, CCA Global was the largest one having a 65 % market share in this category. These organizations made collective purchases but the members had some flexibility as to what products they wanted to stock. Lastly, the independent retailers had complete control over their stocking and marketing decisions. All retail organizations would generally carry either Shaw's or Mohawk brands, but rarely both. They would complete the rest of the inventory with products from the smaller manufacturers.

The cheapest synthetic carpets had a wholesale price of US\$ 11 per lineal meter, with half the synthetic market priced below US\$ 40. In contrast wholesale prices for wool carpets started at US\$ 40 per lineal meter for 50/50 blends and went above US\$ 270 for heavy weight 100% wool. The majority of 100 % wool carpets retailed at between US\$ 100 and US\$ 140 per lineal meter. At the higher end of the US market the average price for wool carpets was twice of synthetics.

Some industry participants believed that there was a growing interest in the USA market for wool carpets and rugs. Consumers' preferences were moving towards more sophisticated pat-

terns and textures which were most suited to the properties of wool. The price gap between wool and synthetic products had been closing in the last decade. An increasing number of USA consumers would prefer to buy a sustainable, recyclable natural product as long as the price and other attributes were comparable to the synthetics.

Purchasing decisions vary depending on the market sector. In the case of single family homes it was most often the home owners who made the decision. When the purchase was for a new home the builder usually presented the homeowner with a number of floor covering options. In the case of condominiums and flats the purchasing decision would be made by an interior designer or facilities management staff. Interior design professionals made decisions for a very small proportion of the market.

Public Promotion of Wool

The New Zealand Wool Board had been, until 2001, the central body for the funding of wool R&D and promotion. In 2001, farmers voted for its dissolution. The Wool Board's assets were carved out and transferred to new commercial entities. In 2009 the farmers voted to stop all payments to support industry wide promotion and R&D activities.

The Woolmark (logo in Exhibit 15) was a brand created in 1964 by the International Wool Secretariat (IWS) to combat the increasing competition of synthetic substitutes in the textile industries. The International Wool Secretariat was an industry body created and funded in 1937 by New Zealand, Australian and South African wool grower organizations for the promotion of wool worldwide and for conducting technical and marketing research. Other wool producing countries such as Argentina and Uruguay also joined the IWS. The Woolmark program included quality assurance standards with specifications according to end products. There were no fees associated with the license but manufacturers were required to comply with specifications and provide volume statistics to the IWS. Woolmark was considered a global brand recognition success story.

New Zealand withdrew from the IWS and its Woolmark program in 1996. It was perceived that, although it was having a positive effect on fine wool apparel products, it had little impact on interior textiles. The other important concern was that other major strong wool producers such as the UK farmers were free-riding the program. New Zealand wool producers, who at some point were investing between half and one million dollars per week, felt that they were not seeing enough results for their money. After withdrawing from the IWS, the NZ Wool Board created Wools of New Zealand to launch and manage a new promotion program for the country's strong wool. The Fernmark logo (Exhibit 15) was then created as New Zealand's new wool brand. The new initiative included a quality assurance program covering all aspects of the supply chain back to the shearing board. It was believed that the quality assurance program would increase demand for New Zealand wool and eventually lead to price premiums. By 2001, 60,000 tons of raw wool was being channeled through the program and Wools of New Zealand had 249 brand partners in the carpet and rug sector worldwide.

In 2010 the Campaign for Wool (logo in Exhibit 15) was launched by its patron The Prince of Wales. It was a generic promotion initiative targeted at consumers and retailers and focused at promoting wool's natural and sustainable attributes as well as fire safety and durability. The funding partners were the Woolmark Company, British Wool Marketing Board, New Zealand Wool, Wools from Norway and International Wool Textiles Organization, and the National Council for New Zealand Wool Interests Inc. The members of the National Council for New Zealand Wool Interests Inc. included exporters, scourers, brokers and private mer-

chants. Amongst the organizations supporting the Campaign for Wool initiative were Elders Primary Wool, Wool Services International, and WoolFirst (the Federation of New Zealand Wool Merchants). See Exhibit 16 for how one industry participant described the Campaign for Wool.

Private Branding Initiatives

Three different groups – Elder Primary Wool, Wool Services International, and Wool Partners International, had started their wool branding initiatives after the Wool Board was discontinued (see logos in Exhibit 17). Branding ingredients, such as wool, was considered a highly challenging proposition; even more so if the brands were aimed at creating consumers recognition. Manufacturers and retailers were not to enthusiastic to carry the wool brand side by side with their own brand unless the wool brand really made a difference. There were additional challenges related to preserving the identity and integrity of the wool from origin to end product. See Exhibit 18 for how one industry participant explained the challenges faced when branding wool.

Elders Primary Wool (EPW)

Elders Primary Wool (EPW) was a 50/50 joint venture formed in 2005 between Elders Rural Holdings Limited and the Primary Wool Cooperative (PWC). The Primary Wool Cooperative contributed to the joint venture a procurement base of 110,000² bales of wool per year plus its storage facilities and transport operations. Elders Rural Holdings Limited had contributed a sourcing capacity of 50,000 bales, and its wool management, trade and marketing assets and expertise. EPW was a wool merchant, broker and handler, and offered wool management services to farmers with wool stores and buyers and field representatives throughout the country. By 2010 EPW was employing a team of 50 staff and handled 220,000 bales per annum. From the five board members, two were representatives from PWC and the remaining directors and the chairman were from Elders.

The Primary Wool Cooperative was founded in 1972 when 400 growers from the East Coast region of the North Island came together to form what was known then as the East Coast Wool Cooperative. In 2001, the cooperative purchased Elders Wools. By 2010 the Primary Wool Cooperative had a membership of 900 farmers. Farmers' shareholding in the Primary Wool Cooperative was based on the volume of wool supplied. A member had to own 1 share, valued at \$1 for every 5kg of wool, with a minimum share holding of \$1000. Members were not obligated to selling their wool through the co-operative. The shareholding entitled them to receive a rebate of 3 cents per Kg of wool on the brokerage fees which were approximately 17 cents per Kg of wool. Bonus share offerings had been made periodically to increase the shareholding of the existing members. Shares were of fixed value and could be redeemed with the approval of the cooperative directors. Voting rights were based on one vote per share but were capped at 20,000 votes per shareholder. The two largest shareholders held a combined 65% share in 2010. The Primary Wool Co-operative had a board of four directors.

Elders Rural Holdings was originally an Australian owned rural services company that had started operations in New Zealand in 1903. In 2001, after an acquisition by New Zealand interests, Elders sold its wool interests to the Primary Wool Cooperative. In 2005 Elders entered the mentioned joint venture with Primary Wool Cooperative to form Elders Primary Wool.

² 1 bale = 180kg

Branding Initiatives by Elders Primary Wool

EPW had recently launched the *Just Shorn* wool brand in the USA market. Just Shorn was targeted at the highest end of the carpet market and aimed to encourage consumers to pay a premium for high quality carpets and rugs made from New Zealand wool and procured exclusively through EPW. The program included an on-farm accreditation system aimed at providing the assurance that high quality wool was produced in a responsible way with regards to environmental and animal welfare issues. A traceability technology developed by AgResearch was at the core of the Just Shorn quality assurance program. The process involved minute quantities of a phosphorous coated nylon fiber mixed with the wool at the scouring and blending stage. The phosphorous coating could be detected by an electronic reader allowing to preserve the identity of the wool along the entire supply chain up down until the end consumer product. The technology was aimed at assuring the provenance of wool and at stopping unscrupulous suppliers to free-ride the efforts made in New Zealand.

The major partner in the Just Shorn initiative was the USA based retailer CCA Global Partners. CCA Global Partners was a large co-operative retail group and the largest carpet retailer in the world. It had seven different retail sectors that operated under several brands such as the International Design Guild, Prosource, CarpetOne, Floor and Home, and Flooring America. The Just Shorn branded carpets were distributed through International Design Guild outlets which had 120 stores throughout the US. Elders Primary Wool licensed the brand to CCA Global Partners CCA and through it to International Design Guilds dedicated manufacturers. Elders Primary Wool invested in brand development and in-store displays while International Design Guild invested in publications and a website targeted at professionals. Marketing materials provided emotive images of Kiwi farmers as responsible custodians of land and stock. In terms of volumes, the expectation at EPW was to supply 7,000 bales of wool in the first year and 15,000 bales by the third year. The pricing strategy was to start selling yarn at the market price and then moving up the premium ladder as brand recognition and value increased. The program managers held the view, based on past experiences, that extracting premiums directly from manufacturers wasn't possible without a significant commitments and support from retailers. Communication efforts targeted the interior design consultants and architects who served high end consumers which perceived carpets as a fashion item and tended to change carpets every six to seven years. Elders Primary Wool had the yarn produced in New Zealand and exported to a select number of International Design Guild premium manufacturers such as Fabrica. Any price premiums at the retail end were to be channeled back from International Design Guild to Elders Primary Wool. Elders Primary Wool would also supply yarn to hand knotted rug producers in Nepal which had supply agreements with CCA Global Partners.

Wool Services International (WSI)

Wool Services International (WSI) was a wool exporting company which had started operations in 1992 to become the leading New Zealand wool exporter. In 2009 WSI had a 32% wool exports market share (42% of carpet type wools), sales of over NZ\$ 150 million and exported to 30 countries (See in Exhibits 14 and 15 the financials and share prices of WSI). WSI was publicly listed with 65% of ownership in less than a few hands and the rest held by management and 3,500 farmers. WSI controlled 50% of New Zealand actual wool scouring. Wool was procured through auctions, private sales and independent merchants. The gross export margins would vary between 1.5% and 3%. WSI and all the major wool exporters were members of the New Zealand Council of Wool Exporters. In the history of the council,

which was around 100 years, there had never been a default in payment to any one in New Zealand by any of its members.

Branding Initiatives by Wool Services International (WSI)

WSI had three branding initiatives, Purelana, Glacial, and Redband, all targeted at carpet and rugs manufacturer. Purelana was a scoured wool brand launched in 2005. Its value proposition was based on sustainability and on a paper based traceability system from procurement through to processing and marketing. The program required growers to exclusively supply WSI for a contracted period of between one and three years. WSI offered two main direct supply options to farmers, one was a forward contracts based on a forward price of up to twelve months, and the other was a spot market contract price. The long term supply contracts were intended to create consistency in timing, quantity and quality. Direct supply system minimized costs to farmers by reducing handling costs between the farm and the wool scour, avoiding brokerage charges and marketing fees. Loyal farmers benefited from such economies.

The Glacial brand was positioned as exceptionally clean and bright scoured wool with a superior capacity to take dye. The special scouring process was twice as costly as the usual one and therefore was applied only to the best available wool. Glacial was targeted at manufacturers of pure white and pastel shades carpets and rugs. The imaging suggested that producers for this brand were encouraged to be innovative in stock management practices, pest control and shearing practices to ensure the quality of the fleece. Although still a small business, it was considered one of WSI flagship products.

Redband was an initiative aimed at visually differentiating their bales of scoured wool. Instead of using the usual brown metal bands to wrap the wool bales WSI changed to a red band so that they could be identified when their bales were in the shed of their customers together with bales from other sources. Redband offered quality controlled wool from farm gate through the WSI scour and all the way to guaranteeing how the wool performed on the customer equipment. Although the initiative was started without much expectation, overtime WSI customers perceived the red ban as a sign of quality assurance.

Wool Partners International (WPI)

Wool Partners International (WPI) was created in 2008 by PGG Wrightson as a wool trading and marketing company. PGG Wrightson was a publicly listed company with a long history as a provider of inputs and services to the rural sector in New Zealand. In 2010 PGW had assets of around NZ \$ 1.5 billion and revenues of NZ \$ 1.1 billion. It was a major wool broker with a tradition in the farming services business that dated back to the 19th century.

WPI was formed with the idea of becoming 50% owned by PGG Wrightson and 50% by the farmers through a holding company to be named Wool Growers Holding. The initial public offering to fund Wool Growers Holding was not successful. PGG Wrightson went ahead with the plan and transferred to WPI all its strong wool business - a wool procurement team, an auction management team, an international trading division, a network of wool stores and quality control facilities spread throughout the country, as well as the exporting company Bloch and Behrens. In 2008 WPI bought Wools of New Zealand, a wool marketing division, from Meat and Wool New Zealand.

In 2010, in a new attempt to bring the farmers on board, WPI issued an investment prospectus to create Wool Partners Cooperative. The idea was that Wool Partners Cooperative would acquire most of the wool trading assets of WPI. In November 2010 a prospectus to create Wool Partners Cooperative was released and the funding campaign started (See in Exhibit 1 a summary of the WPC investment prospectus).

Branding Initiatives by Wool Partners International (WPI)

WPI had two brands targeted at carpets and rugs manufacturers, Wools of New Zealand and Laneve. The use of the Wools of New Zealand brand in carpets and rugs required that a minimum of 80% total fiber content had to be wool and a minimum of 60% of total fiber had to be New Zealand wool. The products had to pass performance testing of durability, appearance retention and color fastness. The manufacturers were licensed to use the brand and no exclusivity was required. Wools of New Zealand had over 100 partners involved in yarn or carpet production. WPI sources claimed that the brand was carried on 25% of New Zealand products sold in the USA. Most Wools of New Zealand branded carpets and rugs sold in the US market were imported from Asia, Europe and the Pacific.

The Laneve brand was to be positioned as an integrity brand, providing assurance to the consumer that the wool was sourced from growers following high standards in terms of animal welfare and environmental sustainability. A paper based traceability system enabled the wool to be traced back to the farm. Growers had to comply with given codes of practice about health, nutrition and safety. The promotion activities were aimed at communicating directly with manufacturers and retailers and, through advertising in interior design magazine, with architects and interior designers. An online training program called the Wool College was aimed at training retail staff to communicate with consumers about the benefits of wool and the value propositions in the Laneve and Wools of New Zealand brands. The expectation was that eventually manufacturers would be willing to pay a royalty to use the brand or alternatively pay a price premium for the branded wool.

Decision Time at Wairarapa Wool Growers

In their previous meeting, the Wairarapa farmers had agreed to reconvene to decide if to invest or not in any one of the branding initiatives. The farmers had contrasting views to consider. The most extreme views were, on one side, that farmers should stay away from investing in the branding of wool and let markets work. On the other side some farmers believed that they should take total control of the exports of all New Zealand wool to. The middle of the range options were to invest, with different degrees of commitment, in one or another of the existing value adding and branding initiatives.

Sam Poulton had organized the farmers in three groups; each group was assigned to present to the plenary the strengths and weaknesses of each of the wool marketing groups and the respective branding initiatives. After listening to the three presentations, the farmers would make a decision. Sam was very much focused on the questions they needed to answer. Which one of these initiatives, if any, was best for the farmers to invest in? Would it be better to just let the market forces work? Or was it time for farmers to step up and make things happen? If so, what form of commitment should the farmers be prepared to assume?

References

- Beef and Lamb NZ. 2010a. Wool Statistics. Wellington: Beef and Lamb NZ. Retrieved from <http://www.meatandwool.co.nz/main.cfm?id=259> (accessed on 12/15/2010).
- Beef and Lamb NZ. 2010b. Compendium of New Zealand farm facts. Wellington: Beef and Lamb NZ. <http://www.beeflambnz.com/main.cfm?id=261> (accessed on 12/15/2010).
- Carter, B., and J. MacGibbon. 2003. *Wool a history of New Zealand's wool industry*. Wellington: Ngaio Press.
- Daniell, D. 2010. Wool you? Won't you? <http://www.nzfarmersweekly.co.nz/article/8641.html> (accessed on 12/15/2010).
- Elders Primary Wool. 2010. About us. Latest news. <http://www.eldersprimary.co.nz/>
- IWTO. 2010. IWTO Market information. Brussels: International Wool Textile Organisation
- MAF. 2002. Regulatory Impact Statement: Wool Board Disestablishment. <http://www.maf.govt.nz/mafnet/publications/regulatory-impact-statements/wool-board-disestablishment.htm> (accessed on 12/15/2010).
- MAF. 2003. Wool production in NZ. Wellington: Ministry of agriculture and Forestry. Retrieved from <http://www.maf.govt.nz/mafnet/rural-nz/overview/nzoverview009.htm> (accessed on 12/15/2010).
- MAF. 2010. International Trade. Wellington: Ministry of agriculture and Forestry. <http://www.maf.govt.nz/statistics/international-trade/> (accessed on 12/15/2010).
- Meat and Wool NZ. 2008. Wool 2008 snapshot. http://www.woolsnz-partner.com/industry/downloads/wool_wnz_1285.pdf (accessed on 12/15/2010).
- National Farmers Federation. (2010). Major Commodities - Wool. <http://www.nff.org.au/commodities-wool.html> (accessed on 12/15/2010).
- Nicol, A., and C. Saunders. 2009. Meat and wool - Wool production and processing. <http://www.teara.govt.nz/en/meat-and-wool/7> (accessed on 12/15/2010).
- NZWSI (2010). News Releases. New Zealand Wool Services International <http://www.nzwsi.co.nz/market-news-releases.php> (accessed on 12/15/2010).
- Scoop. 2010a. Starbucks to feature revolutionary “WoJo” fabric. <http://www.scoop.co.nz/stories/BU1010/S00322/starbucks-to-feature-revolutionary-wojo-fabric.htm> (accessed on 12/15/2010).
- Scoop. 2010b. WSI invests heavily in Wools future. <http://www.scoop.co.nz/stories/BU1011/S00675/wsi-invests-heavily-in-wools->

[future.htm](#)

(accessed on 12/15/2010).

Wool Equities Ltd. 2009. Keratec. <http://www.woolequities.co.nz/keratec.htm> (accessed on 12/15/2010).

WPC. 2010. Stronger together: Prospectus and investment statement for Wool Partners Co-operative Limited. Christchurch: Wool Partners Co-operative.

Wool Producers Australia. 2009. Annual review 2009. Brisbane: Wool Producers Australia. <http://www.woolproducers.com.au/uploads/WoolProducers%20AR%202010.pdf> (accessed on 12/15/2010).

Wools of New Zealand. 2010. Brands. Retrieved from <http://www.woolsnz.com/content/en-US/brands.aspx> (accessed on 12/15/2010).

Appendix

Exhibit 1: Initial Public Offering for the Wool Partners Cooperative (Summary of the Prospectus)

Highlights:

- One share valued at \$1.00 per kg of greasy wool produced of which \$ 0.20 is payable on application and the balance to be paid over a four year period.
- Shareholders must commit 100% of their wool to the cooperative.
- Only shareholders may supply the cooperative.
- A wool market development fee of 2% of the value of all wool supplied to the cooperative must be paid.
- Wool partners cooperative will only go ahead if it is able to attract 50% of New Zealand strong wool production.
- Initially the offer was to close on the 30th of November 2010.

Funds raised in the share offering would be used to:

- Acquire certain assets of the supply, sales, marketing and corporate divisions of WPI including wools of New Zealand and Bloch and Behrens but excluding the logistics and handling business of New Zealand Wool Handlers
- Provide working capital to expand the supply, sales and marketing capability of the business
- Acquire and collaborate with other businesses within the wool value chain
- Meet costs of issue, transaction and restructuring.

Cost of acquisitions and selected expenses:

- 100% of Bloch and Behrens: \$1,965,000
- 100% of Wools of New Zealand: \$1,237,000
- Deferred settlement payment due to WRONZ in relation to Wools of New Zealand (\$737,000)
- Assets and liabilities of WPI and its subsidiary NZ Wool Handlers which relate to the Supply, Marketing and Corporate divisions \$15,271,000
- Has the opportunity to acquire an option to buy NZ Wool Handlers for option price \$250,000 by 31st December 2010 and must be exercised by 30th June 2012 and settled by 30th June 2013.
- Preliminary issue expenses: \$980,000 made up of:
 - Advisory, legal and accountancy costs \$595,000
 - Prospectus preparation and delivery \$155,000
 - Communication and marketing costs \$190,000
 - Insurance and ancillary costs \$ 40,000

Important points and conditions

- A minimum of \$13 million must be raised for the cooperative to proceed, which equates to 50% of New Zealand's annual strong wool volume.
- Only strong wool producers and meat processors producing slipe wool may apply for membership.
- A minimum of 500 shares or their Quota shareholding, whichever is greater, is required.
- Transfer of shares is at the discretion of the board.
- Returns of shares will be in the form of rebates based on volume supplied to WPC. Dividends are payable on the equivalent number of fully paid share held by the member.
- Members have one vote per share; if shares are not fully paid up voting will be in proportion to the paid up shares.
- A maximum of 5% voting rights is allowed per shareholder.
- The board will consist of between 5 and 7 directors, of which the majority must be grower appointed; the remainder may be appointed by the board and there must be minimum of two of these directors.
- Intention is that premium earned from brands will eventually pay for the market development costs and that this fee (levy) will no longer be required.
- With Bloch and Berhens WPC would be exporting 12% of New Zealand's strong wool clip.

Exhibit 2. Wool Production

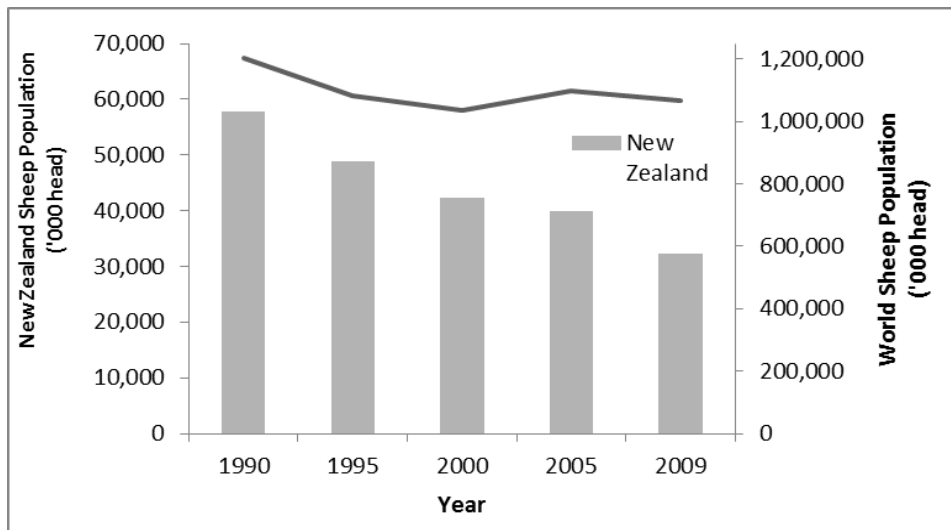


Figure 2. World and New Zealand sheep populations 1990-2009.
Source: IWTO. 2010.

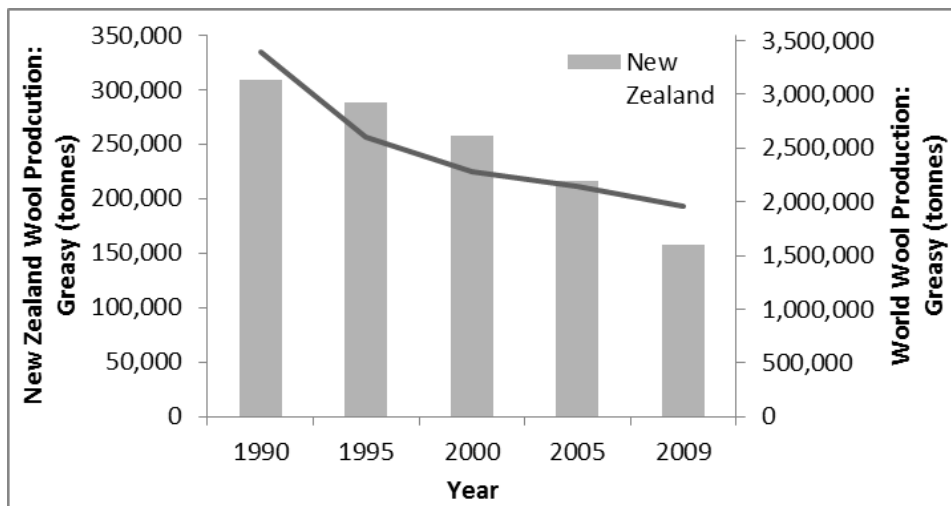


Figure 3. World and New Zealand wool production (greasy) 1990-2009.
Source: IWTO. 2010.

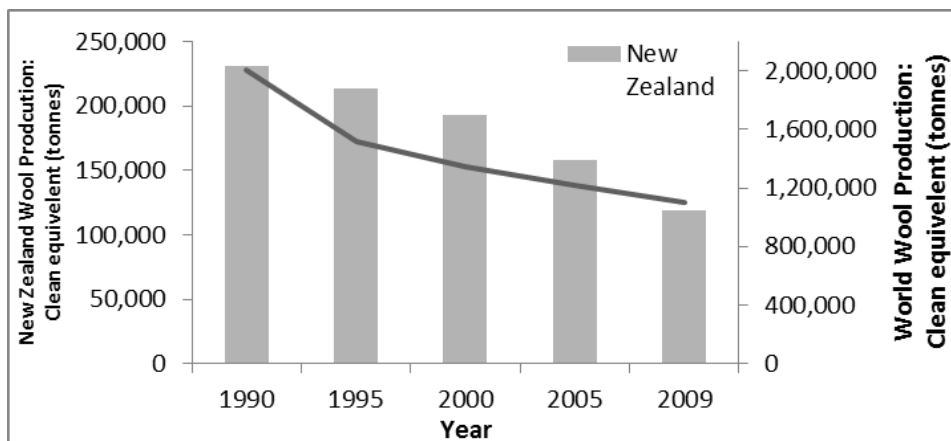


Figure 4. World and New Zealand wool production (clean equivalent) 1990-2009.
Source: IWTO. 2010.

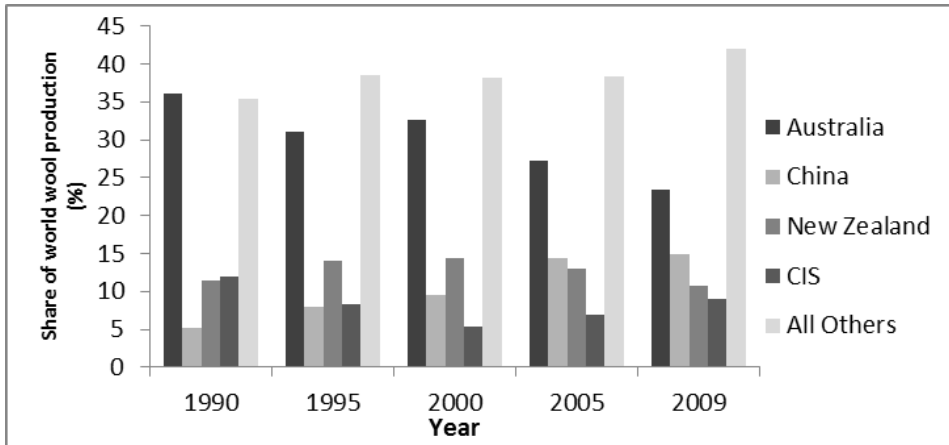


Figure 5. World wool production (clean equivalent) 1990-2009: % share of main producers. Source: IWTO. 2010.

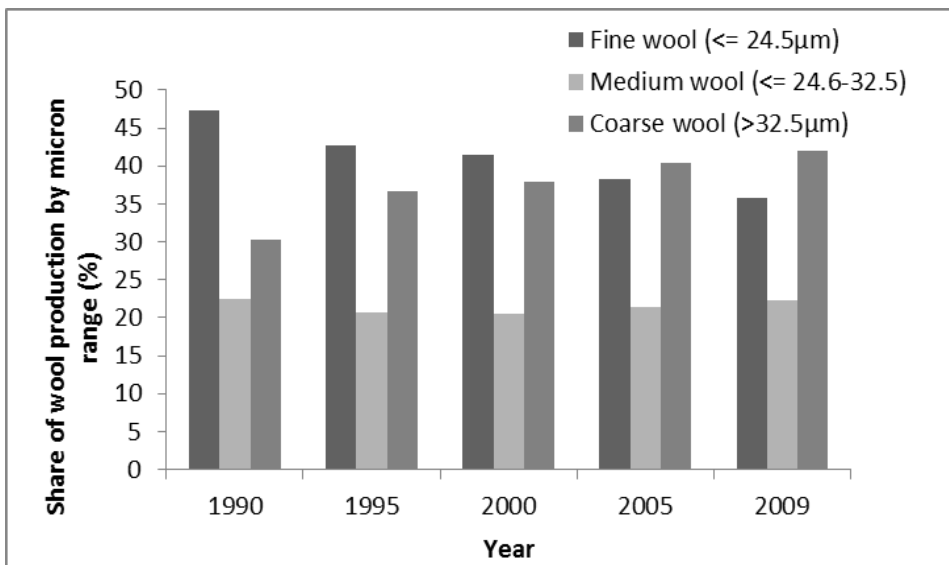


Figure 6. Share of world wool production by micron range (clean equivalent) 1990-2009. Source: IWTO. 2010.

Exhibit3. Wool Trade

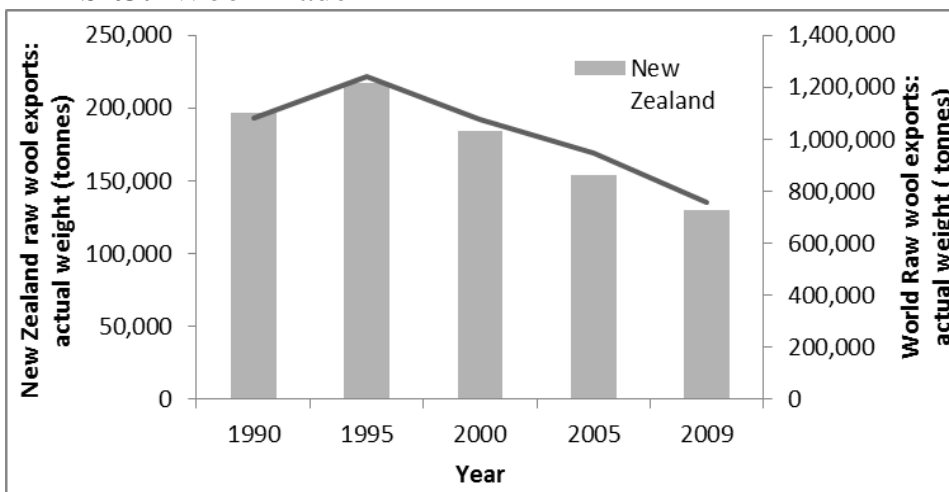


Figure 7. World and New Zealand raw wool exports (actual weight) 1990-2009. Source: IWTO. 2010.

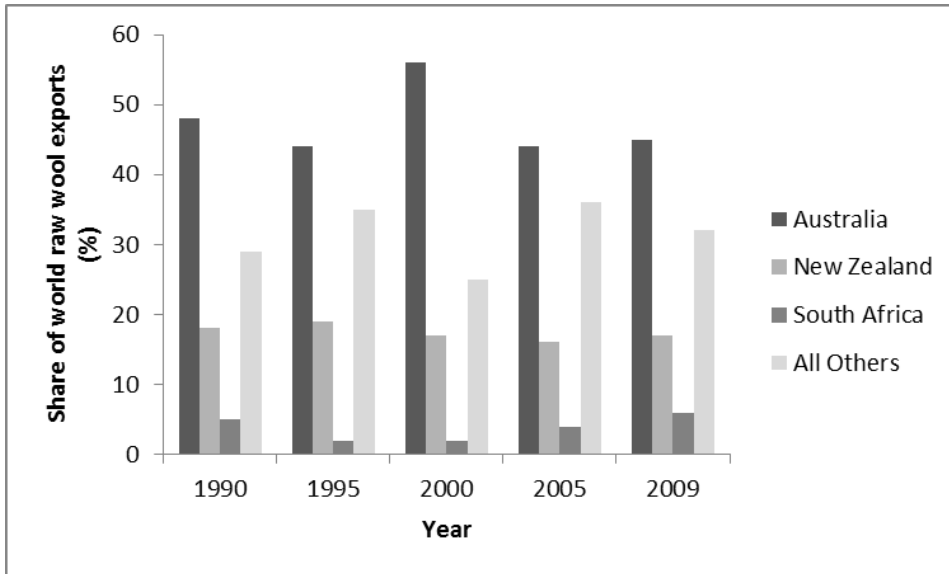


Figure 8. World raw wool exports (actual weight) 1990-2009: % share of main exporters.
Source: IWTO. 2010.

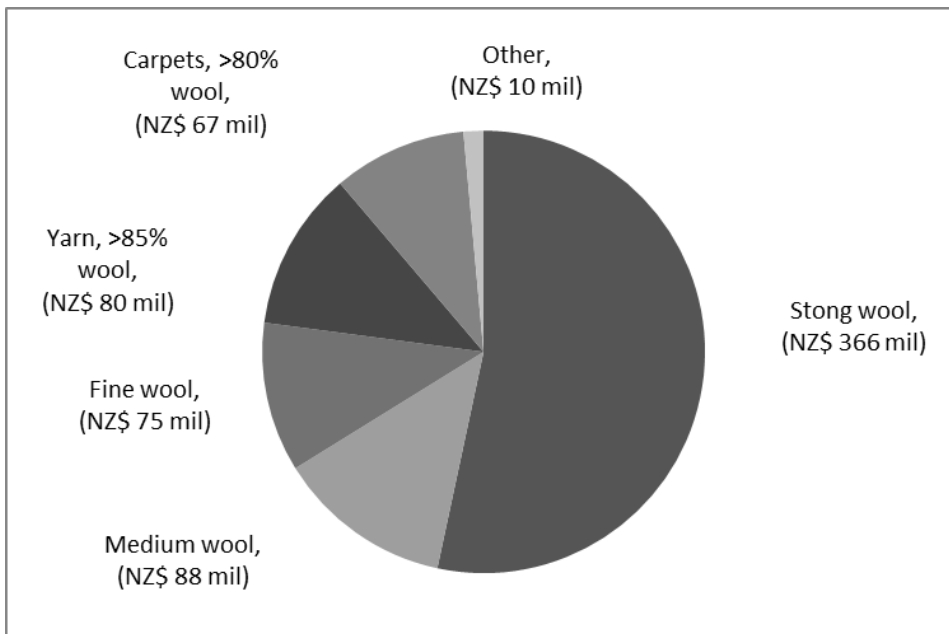


Figure 9. Export values of New Zealand wool and wool products for year ended March 2010.
Source: MAF

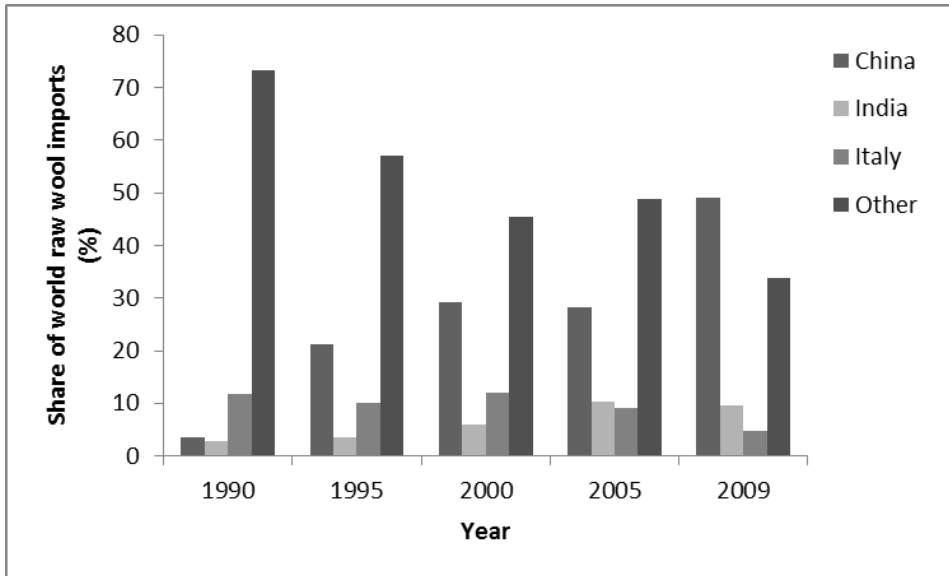


Figure 10. World raw wool imports (actual weight) 1990-2009: % share of main importers.
Source: IWTO. 2010.

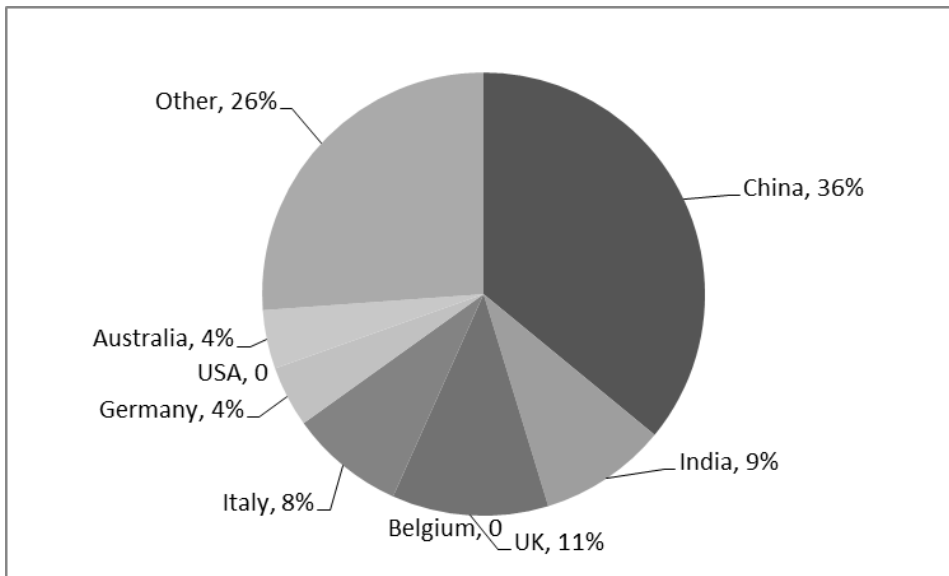


Figure 11. New Zealand raw wool export markets by volume (clean weight equivalent) for 2009.

Source: (Beef and Lamb, 2010a)

Exhibit 4. Wool Prices and Returns

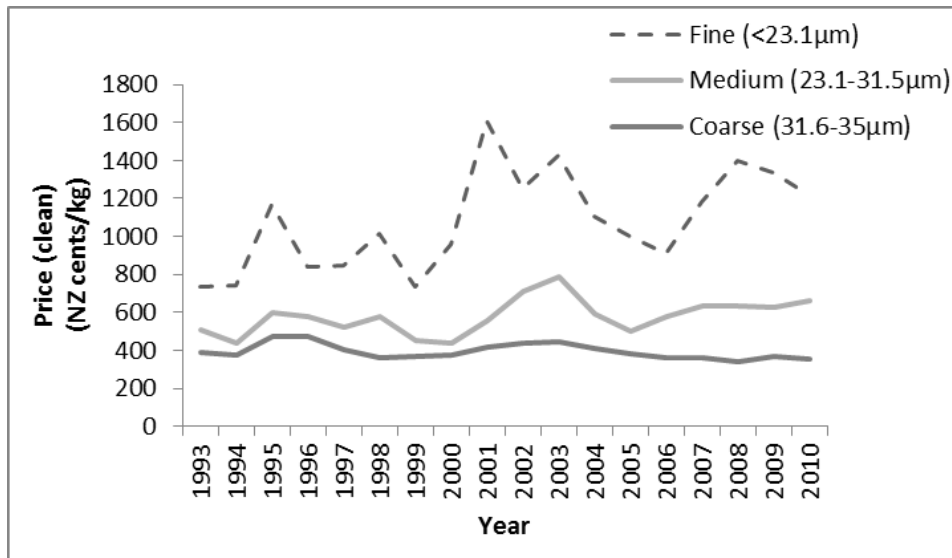


Figure 12. New Zealand clean wool prices. Source: IWTO (2010).

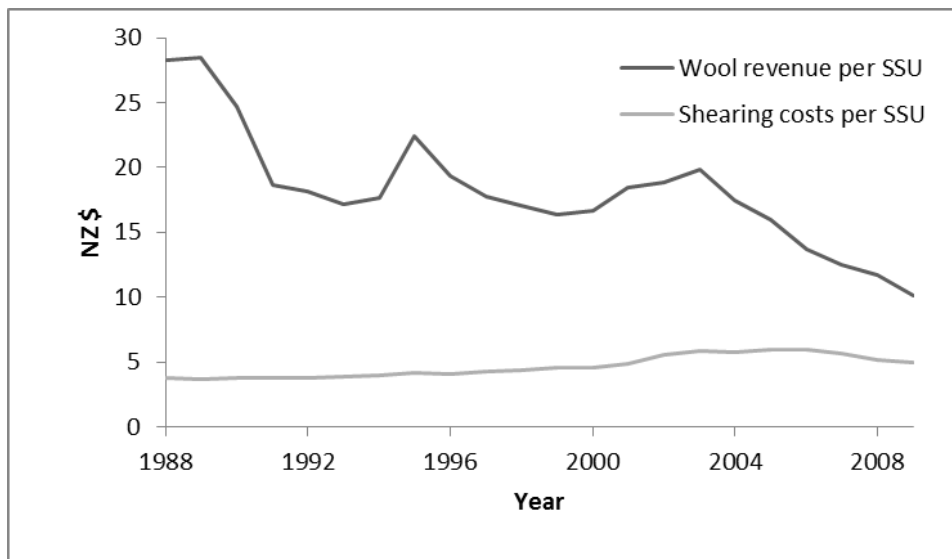


Figure 13. Trend in average farm real returns and shearing costs per sheep stock unit (SSU). 2004-05 was used as the base year. 2008 values are provisional results. 2009 values are an estimate.

Source: MAF, 2010b.

Exhibit 5. Wool Value Adding Processes

Source: University of Waikato, 2010

Wool undergoes either woolen processing or worsted processing). Finer wool that will be used for woven apparel, carpets and upholstery will go through worsted processing. Strong wool, which is primarily used for the production of tufted carpets, goes through woolen processing. The main steps in woolen processing for tufted carpet manufacturing are scouring, blending, carding, dyeing, spinning and twisting, and fabric formation (tufting).

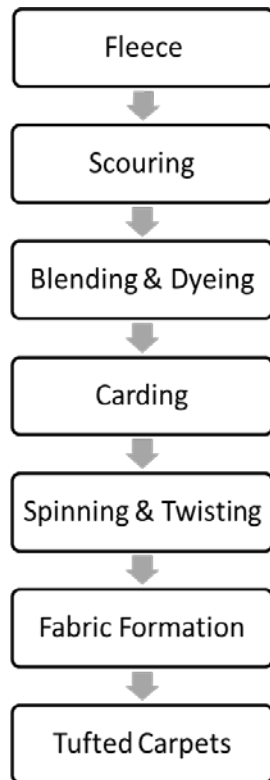


Figure 14. Woolen processing flow chart.

Scouring

Scouring is a washing process used to remove the dirt, sweat and grease that has accumulated in the fleece during the growing season.

Blending and Dyeing

Different batches of wool will often be blended to give the yarn the specific properties that are desired. Because of the strong absorption characteristics wool can be dyed at a number of stages. Wool is most commonly dyed after scouring or after spinning and weaving.

Carding

Carding involves combing the wool to remove small particles of vegetable matter (such as leaves, twigs and seeds) and shorter wool fibres that are undesirable in yarn. It also aligns and straightens the fibres to form narrow ropes called 'slivers'. These are gently twisted into strands that are wound into balls in preparation for spinning.

Spinning and twisting

The combed wool is spun into a singles yarn, two or more singles yarns will then be twisted together to form a thicker, stronger yarn which will be used for producing carpets.

Fabric Formation

Tuft carpets are made by stitching the yarn to a backing fabric (tufting). This process creates loops which are either left as loops or cut, depending on the style of carpet being produced. An adhesive is then applied to the base of the carpet to seal and lock the wool yarn in place.

Exhibit 6. Wool Processing Yields, Costs, Prices and Margins

The amount of clean wool that could be obtained from greasy wool varies greatly but in New Zealand on average 1 kg of greasy wool would yield 780g of clean wool after scouring. One kg of clean wool would yield 0.93 kg of yarn. It is estimated that it takes approximately 1.3-1.7 kg of clean wool to produce a square meter of broadloom carpet. It takes approximately 1.35 kg of clean wool to produce an average 40 ounce carpet. A medium weight pure wool carpet (40 ounce) required approximately 4 kg of yarn per lineal meter or an equivalent of 4.3 kg of clean wool. A lineal meter of carpet was 3.66 meters wide. The process of yarn manufacturing costs approximately NZ\$ 13.50 per kg and the process of tufting around NZ\$ 22 per lineal meter.

The prices of carpets vary mostly with the type of fiber and the weight. In the New Zealand market, carpets targeted at the low end of the price range such as those made from Polypropylene and light weight solution dyed nylon carpets wholesaled for approximately NZ\$ 50 per lineal meter (1 x 3.66 m). Middle range carpets such as medium weight solution dyed nylon, wool blends are priced up to NZ\$ 110 and the higher end heavy weight (up to 90 ounces) pure wool and solution dyed nylon can be priced up to \$300 or more. A medium weight pure wool carpet (40 ounce) will have a wholesale value of approximately \$ 120 and retail for around \$ 180.

Wool carpets sit at the higher end of the US market with the wholesale prices starting at US\$ 40 per lineal meter for 50/50 blends to US\$ 270 per lineal meter for heavy weight 100% wool. The majority of 100 % wool carpets fall between US\$ 100 and US\$ 140 per lineal meter. In contrast the cheapest synthetic carpets sell for US\$ 11 per lineal meter, with half the synthetic market priced below US\$ 40 per lineal meter. The average price for a synthetic carpet in the US market was approximately half the price of a wool carpet.

Exhibit 7. Diagram of the Wool Value System

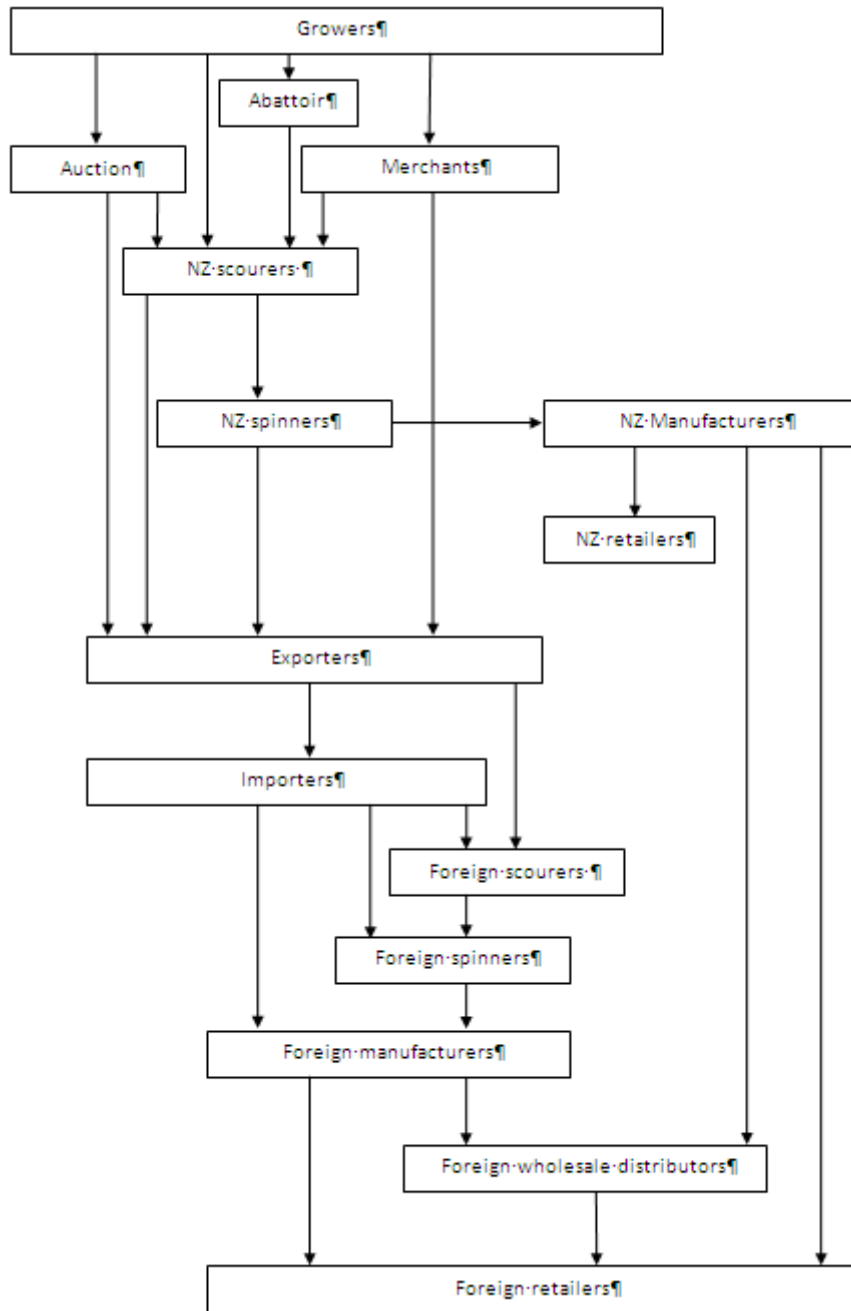


Figure 15. Flow of wool through the New Zealand Strong wool value chain

Exhibit 8. Account of Wool Sales Example

Wool Partners International
ACCOUNT SALES OF WOOL SOLD

RECIPIENT CREATED TAX INVOICE/TAX INVOICE

P O Box 12001, Napier 4144
 Phone 0800 497496 Fax 06 8337799
 GST:100-084-643

Proceeds	Grsy kg	\$
Main line sales	2,420	9,776.80
Credit value of samples	4	8.08
Total	2,424	9,784.88
Add 15.0% GST on proceeds		1,467.73
Gross Proceeds		11,252.61
	\$	\$
<u>Broker charges</u>		
Consolidated Charge		412.08
Total broker charges		412.08
<u>Other Costs</u>		
Insurance		39.14
Wool Market Development Fee		293.55
Core Testing		67.10
Total non broker charges		399.79
15.0% GST on charges	121.78	
Total charges		933.65
GST Input		\$121.78
GST Output		\$1,467.73
Net Proceeds excluding GST		\$8,973.01

Net Proceeds for this Account Sale	10,318.96
---	------------------

Lot no	Description	Bales	Greasy Net kg	Greasy Price	Gross \$ Amount	Clean Price	Mic	SD Yield	VM	Colour		Staple test information						
												SL		SS	POB			Haut
												Y	Y-Z		SL	CVL	T	
5702	H	17.	2,420	404	9776.80	529.	31.9	76.4	0.1	62.2	3.5							
Totals	Sold	17.	2,420		9,776.80													
	Passed																	

Exhibit 9. New Zealand's leading carpet manufacturers

Cavalier Corporation was a New Zealand publically listed carpet manufacturer with revenues of NZ\$ 247 million and assets of NZ\$ 196 million. It specialised in wool carpets and manufactured about 1 million lineal meters per year. Half of its sales were in New Zealand or Australia; its main export markets were Canada, USA, North Asia and UK where it targeted high end residential consumers. Cavalier was a vertically integrated company having interests in operations throughout the supply chain. It owned Elco Direct which purchased 60,000 bales of wool directly from farmers each year. It also had a 50% share in Cavalier Wool Scours and two spinning mills with a combined capacity of approximately three million kg of wool yarn per year. Cavalier management believed that the essential product attributes to compete successfully in the carpet market were performance, functionality and appearance. Provenance or the story surrounding the product in terms of history, heritage, ethics and sustainability could influence buying decisions but only if the other attributes were in place. For that reason Cavalier concentrated its efforts on design and on meeting industry wide grading standards such as the Australian Carpet Classification Scheme (ACCS) to assure quality irrespective of fibre type. Cavalier wasn't carrying any wool brands on their products.

Godfrey Hirst was a privately owned Australian carpet manufacturer with considerable operations in New Zealand. Most of its production capacity was in Australia where it employed 2000 people. It employed 700 people in New Zealand and had spinning mills in Christchurch, Lower Hutt and Dannevirke. It had recently sold its scouring facilities to Cavalier who closed them down. Godfrey's product range included 100% wool carpets, 80/20 wool rich blends, 50/50 wool blends, 100% nylon and 100% polypropylene. About 50% of its production was pure wool, 25% were blends and 15-20% pure synthetic. The retail price range of its wool carpets would vary between as low as \$89-99 to a high of \$360 (GST included) per lineal metre (12 ft or 3.66 meters wide). It had offices in the UK, USA and Asia. Half of the yarn produced in New Zealand was exported to Australia; 75% of its carpet production was sold in Oceania and the rest exported mainly to the UK and the USA. Godfrey Hirst was one of the largest, if not the largest, supplier of wool and carpets to the American market. Thirty percent of its wool products sold in the USA were sold to CCA Global. Wool was procured through independent agents and scouring was contracted out to Cavalier scours. As one of its executives said *"I think at the moment Godfrey Hirst is about the 7th largest manufacturer of carpet in the world, but when compared with the big ones we are like a drop in the bucket."*

Exhibit 10. The organisation of wool exporting to different markets
(view of one industry participant)

“... places likely Nepal and India in particular are low labor cost places and very hands on making rugs, so you’ll have one person over there who will import a twenty foot container of wool which is about twenty tons. They will then sell that wool out, half a bale or 200-300 kg to an individual who will take it home and spin it into the yarn and then bring the yarn back to that person and he’ll pay them for doing that job. He then amalgamates all those yarns together and he will sell that yarn to the next stage processor so it can be a very cottage industry in a place like India. So there could be hundreds or thousands of individuals. Now you go to China, China still has a lot of low labor cost but they are very mechanized, they do it on scale, so instead of just doing a few kilos here and there they are buying in thousands of tons and converting thousands of tons into the next stage of processing. Turkey is mechanized; you would have twenty major players in Turkey. Maybe in China you could have 40-50 major players. You’d have 50 or so players around UK and Europe that are takers of New Zealand wool.... So it’s quite convoluted how you get wool in to some of these countries. In Europe basically you have a combination of agents who act as principals which means they will purchase the wool even though they say they are agents and on sell it in smaller lots. They’ll buy twenty tons and carve off and sell 2 tons to a smaller processor here and 5 tons to somebody else there and then you have the big mills that will import 20 container loads of wool each month for their own full usage to turn it all the way through to carpeting so you have all those different types of importing structures. In markets like Iran we can’t sell directly to any carpet producer. You have to go through an agent who facilitates the business due to cultural and language differences as well as a major labyrinth of bureaucracy to get around. It depends on which country you are working with, which model or combination of models suits best. We are using a range of models all the time, in some countries we are selling directly to the mill, in other places we are selling to a distributor who will buy a box and then split it off to half a dozen different people, in other markets we have our own agents.”

Exhibit 11. Consumption and prices of different textiles fibers

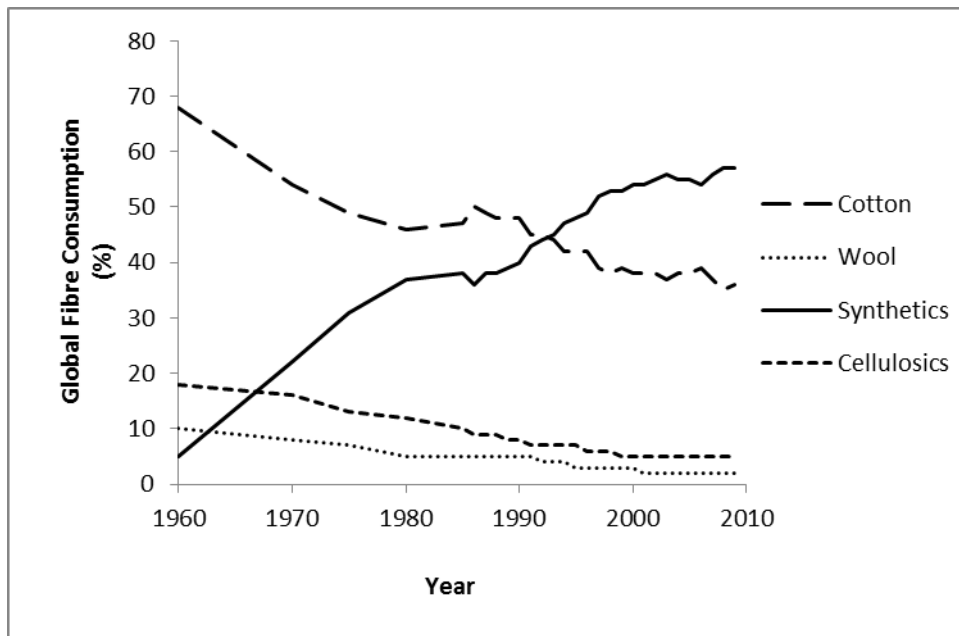


Figure 16. Percentage share of fiber types making up total world fiber consumption.
Source: Oerlikon. 2010.

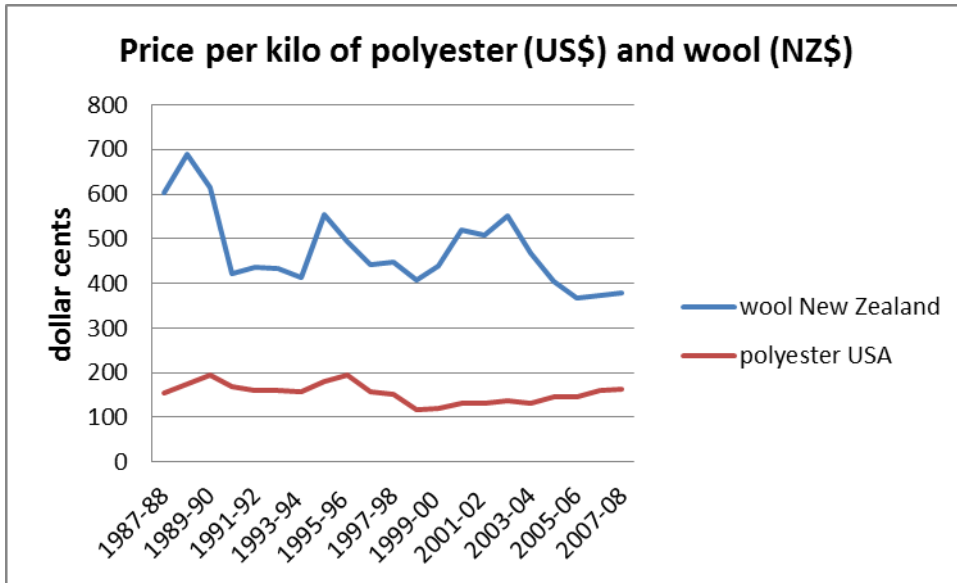


Figure 17. Prices of polyester and wool fibers.
Source: IWTO

Exhibit 12. Imports of floor coverings

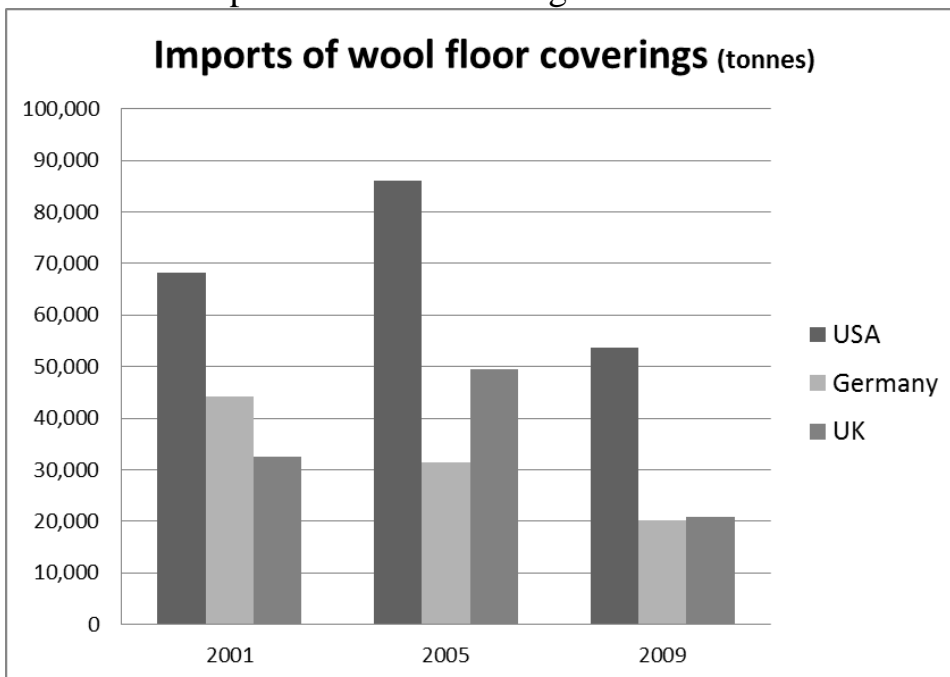


Figure 18. Imports of wool floor coverings into the USA.
Source: IWTO

Exhibit 13. Financial data for selected companies

Table 1. New Zealand Wool Services International financial statements 2000-2009.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Financial Performance										
Operating Revenue	150,561	179,215	144,599	131,599	119,052	124,723	131,160	134,508	127,545	116,084
Surplus Before Tax	(3,821)	3,580	1,948	4,429	561	4,835	5,287	5,115	1,763	2,046
Net Surplus	(4,380)	2,390	2,868	2,908	985	3,470	3,743	3,564	1,393	1,690
Financial Position										
Total current assets	61,663	100,637	77,804	47,149	40,562	53,748	53,091	38,674	43,644	44,517
Total non-current assets	25,612	25,142	26,506	17,599	18,800	982	8,264	7,586	8,271	8,202
Total assets	87,275	125,779	103,590	64,748	59,362	63,640	61,355	46,260	51,915	52,719
Total current liabilities	56,061	90,187	66,549	28,590	24,374	32,203	30,489	16,262	23,548	24,401
Total non-current liabilities	859	485	4,336	5,203	6,141	-	-	-	-	1,375
Total liabilities	56,920	90,672	70,885	33,793	30,515	32,203	30,489	16,262	23,548	25,776
Total Equity	30,355	35,107	32,705	30,955	28,847	31,437	30,866	29,998	28,367	26,943

Source: NZWSI (2010a) & NZWSI (2010b).

Table 2. Cavalier Corporation financial statements 2000-2009.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Financial Performance										
Operating Revenue	246,686	250,056	205,516	201,747	207,840	198,633	193,222	164,787	188,780	218,391
Surplus Before Tax	20,732	26,700	23,712	21,951	21,402	32,194	28,316	20,520	16,292	19,401
Net surplus	14,899	17,937	15,724	14,390	14,110	21,433	18,856	13,534	10,995	13,097
Financial Position										
Total current assets	91,884	109,171	80,252	84,715	79,680	66,961	65,984	57,635	61,826	85,828
Total non-current assets	104,580	112,974	97,145	68,308	68,147	62,778	49,526	48,307	48,475	41,088
Total assets	196,464	222,145	177,397	153,023	147,827	129,739	115,510	105,942	110,301	126,916
Total current liabilities	47,960	49,206	36,553	28,563	24,121	25,054	23,718	21,776	41,508	18,412
Total non-current liabilities	61,182	87,835	65,161	59,976	59,802	37,288	28,566	26,467	13,595	28,409
Total liabilities	108,869	137,041	104,829	88,539	83,923	62,342	52,284	48,243	55,103	46,821
Total Equity	87,595	85,104	72,568	64,484	63,904	67,397	63,226	57,699	55,198	80,095

Source: Cavalier Corporation Limited (2010a) & Cavalier Corporation Limited (2010b).

Table 3. Mohawk Industries Inc. financial statements 2000-2009.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Financial Performance										
Operating Revenue	5,344,024	6,826,348	7,586,018	7,905,842	6,620,099	5,880,372	4,999,381	4,516,957	3,441,267	3,400,905
Surplus Before Tax	(77,713)	(1,272,472)	611,716	685,051	609,272	577,389	488,434	443,629	291,416	267,629
Net surplus	1,019	1,452,534	714,413	464,573	394,277	368,622	310,149	284,489	188,592	162,599
Financial Position										
Working capital (includes short-term debt)	1,474,978	1,369,333	1,238,220	783,148	1,277,087	968,923	592,310	640,846	449,361	427,192
Total assets	6,391,446	6,446,175	8,680,050	8,212,209	8,066,025	4,403,118	4,163,575	3,596,743	1,768,485	1,795,378
Long term debt (including current portion)	1,854,479	1,954,786	2,281,834	2,783,681	3,308,370	891,341	1,012,413	820,427	308,433	589,828
Total equity	3,234,282	3,184,933	4,738,843	3,744,468	3,078,522	2,666,337	2,297,801	1,982,879	948,551	754,360

Source: Mohawke Industries Inc. (2010a) & Mohawke Industries Inc. (2010b).

Exhibit 14. Share prices for selected companies

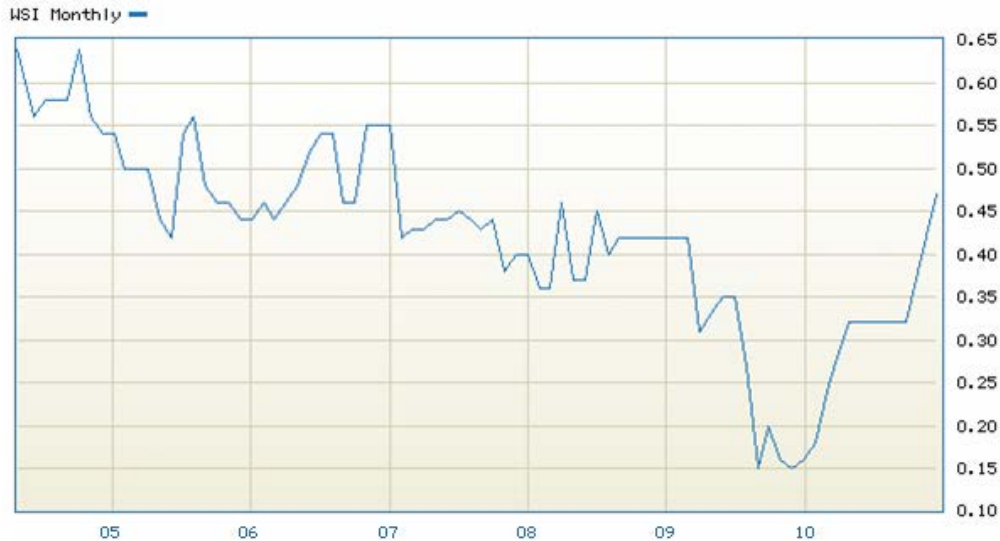


Figure 19. New Zealand Wool Services International ordinary share price history 2004-2010 (NZ\$). Vertical axis is price, horizontal axis is year.

Source: NZSX. 2010a.



Figure 20. Cavalier Corporation Ltd. ordinary share price history 2001-2010(NZ\$). Vertical axis is price, horizontal axis is year.

Source: NZSX (2010b).



Figure 21. Mohawk Industries, Inc. ordinary share price history 2001-2011 (US\$). Vertical axis is price, horizontal axis is year.

Source: NASDAQ (2011).

Exhibit 15. Public wool promotion initiatives




	<p>Generic wool promotion brand initiated by the International Wool Secretariat in 1974 and eventually sold to the Woolmark Company</p>
	<p>Created by the Wool Board after 1996 to promote strong wools of New Zealand. In 2001 licensed to Wool Interiors Ltd and then to Canesis. Sold to Wool Partners International in 2008.</p>
	<p>Generic wool promotion brand initiated by Prince of Wales and supported by many organisations in several countries</p>

Exhibit 16. The Campaign for Wool (as explained by one industry participant)

“What is happening with the Campaign for Wool is that every country and every association, like the Council of Wool Exporters are adding funding to it; we have a funding program that is taking off every certificate that is generated post auction, like all the scouring certificates, all the export certificates. There is a royalty fee being collected off that to do the funding for this and other projects. The carpet manufacturers are funding it, growers in other countries are funding it, the British wool marketing board are funding it. Now there are growers, but also the manufacturers and the exporters and the scourers in those countries are contributing funding to it. So this time even though it’s a generic promotion it is funded by everybody along the pipeline instead of just the farmers picking up the tabs. So you have got a far better buy in at every level. Now what you get for every dollar of input you get 10 dollar of kind, by that I mean you get expertise, knowledge, time; companies are prepared to donate their effort to go to meetings and be part of the organization committee. We do that in company time, there is no cost, there is no charge, we are donating it basically to the campaign. That’s what I mean by ‘in kind’. This is happening in every area within the industry, instead of just saying we need dollars and we need to employ people to do this, it’s being done in house by a lot of people and through that you are getting a huge amount of commitment and a massive amount of buy in, which is why this sort of approach we feel has a far better chance of success, because you are not just paying outside people to work on your behalf.

Exhibit 17. Private brands and logos

	<p>Created by Elders Primary Wool in 2009; targeted at high end segments and licensed through retailers.</p>
	<p>Created by Wool Services International to brand scoured wool and aimed at manufacturers.</p>
	<p>Created by Wool Services International to brand premium scoured wool; aimed at manufacturers</p>
<p>REDBAND</p>	<p>Initiative by Wool Services International to differentiate their bales of scoured wool by using red bands to wrap the wool bales.</p>
	<p>Created by Wool Partners International in 2010 to target high end consumers</p>
	<p>Purchased by Wool Partners International in 2008</p>

Exhibit 18. Challenges in the branding of wool
(as explained by one industry participant)

“...there are two types of selling chains, there is the silo selling chain and there is the vertical mill selling chain. Vertical mill is where it goes from let’s say a scouring processor or exporter and it is sold to the person who turns it into the finished product and even has some of their own outlets or has an alliance with places where they sell it through. For example Cavalier and Godfrey Hirst sell their carpet; they are a vertical mill, they buy the raw wool, they turn it in to a yarn, they turn it into a carpet and then they sell their carpet out under their own branding through retail outlets. That is the pathway where you have the opportunity to actually keep your branding strategy and some possible connection in one way or another all the way through to possibly the retail end of it. Unfortunately only about ten or 15 % of New Zealand’s wool goes down that pathway. Now the rest of it goes down the silo pathway and that is where the farmer sells it, someone process it, then sell it to the yarn maker who takes ownership of it. Once he has paid for it he can do what he likes with it; he turns it into another form of product, which means he may take our wool and mix it with some UK wool and maybe mix it with synthetics and make a stock yarn or a specification yarn for a specific mill. He then sells that yarn to the next stage processor who pays him at the time of shipping that product over. So the line is broken again and that is how about 85% of New Zealand’s wool clip is sold. How do you attach a brand all the way through that pipeline?”

There were also challenges related to extracting and capturing margins and premiums along the value chain. Another participant explained,

“Most of the efforts to identify and brand the wool don’t carry a margin. It is actually a cost process to do that these days. You cannot extract from the market place significant margins because of that. It is about consumer confidence more than anything else. Attaching another brand, to say Cavalier or Godfrey Hirst carpets, which are marketed under their own brand, is very hard to do unless you have something else that you are prepared to put in with it to give them a marketing edge. Most of the manufacturers will say that they have spent a lot of money and time establishing their own imagery and their own branding on their own product. Why should they take your branding along with it? They want the confidence of your branding up to them but it’s hard to take it past them to the next stage and extract an additional premium.”

