NEW VISION FOR NEW ZEALAND STRONG WOOL INDUSTRY

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Abstract

The NZ wool industry has been in significant strife for a number of years due to long-term competition from synthetic fibres, the lack of cohesion amongst key players along the wool industry supply chain and the declining returns to sheep farmers. This paper aims to describe and discuss the current situation and recent marketing and branding initiatives in the New Zealand (NZ) strong wool industry. Several face-to-face and telephone interviews with key players of the NZ wool sector were undertaken in this study. The new NZ wool marketing and branding initiatives are still in their initial stage of development and their potential is debatable. There is some criticism that these marketing programmes have a modest contribution to solve the endemic fragmentation problem of the wool sector. An industry wide initiative is still required to address these challenges. How the competing marketing initiatives will evolve and who will reap the benefits is still to be determined.

Keywords: New Zealand wool, cooperatives, wool supply chain, wool marketing initiatives

Subtheme: Farm management

1. Introduction

The wool industry has been a major sector of New Zealand's economy since colonial times. However in the last few decades the industry has been put under pressure due to long-term competition from synthetic products, reduced market demand for wool carpets and decreased returns from wool. These have been some of the factors in the large decline of sheep numbers and wool production.

This paper aims to describe and discuss the current situation and recent marketing and branding initiatives in the New Zealand (NZ) wool industry with a focus on strong wool. The paper is structured in five sections. The next section presents the historical development of the NZ wool industry. A global view of the wool industry is outlined in section three. Section four discusses the current situation of the NZ wool industry in terms of production, prices, exports, the wool supply chain and the marketing initiatives currently in place. The last section presents brief concluding remarks.

This paper is a part of a larger research project in which a case study of the NZ strong wool industry has also been developed. The research was based on several face-to-face and telephone interviews with key players of the NZ wool sector. Interviewees were selected using purposive sampling and included farmers and leaders of different wool marketing and branding initiatives. Secondary data was collected from different governmental and non-governmental reports and international publications.

2. Development of the NZ wool industry

The wool industry is one of oldest production sectors in NZ. At the end of the 19th century the NZ economy depended heavily on the wool industry. Prior to 1840 a few sheep were brought to missionary stations while the large sheep farming operations began in 1843 with the first flock of Merino sheep in the Wairarapa. In the next ten years the flock increased to 500,000 sheep and in the following 20 years to over 3 million sheep. In 1887 the first shearing machine was introduced in NZ. Forty years later the first wool co-operatives were formed (Carter and MacGibbon, 2003).

In the early 1940s, nylon and polyester fibres became available for making carpets and started competing with wool. As a response to this threat the NZ Wool Board was established in 1944 to help market NZ wool overseas. During the Korean War (1950-53), the US army bought large quantities of wool which caused record high wool prices and a large increase in the number of sheep farms in NZ. The Agricultural Subsidy Programme of the 1970s also supported the development of the wool sector. In 1982, sheep numbers reached over 70 million and the wool industry was New Zealand's most valuable agricultural sector. The government subsidies were removed in the mid 1980s, which resulted in a sudden drop of wool production and the beginning of the gradual decline of the wool industry (Carter and MacGibbon, 2003). In 2000, NZ farmers voted for the dissolution of the Wool Board and the establishment of a new industry body named Meat and Wool NZ, funded by levies from meat and wool farmers, to undertake wool promotion and R&D activities (MAF, 2002). However in 2010 the farmers voted once more to stop paying the wool levy and consequently Meat and Wool NZ dropped all its wool related activities and changed its name to Beef and Lamb NZ.

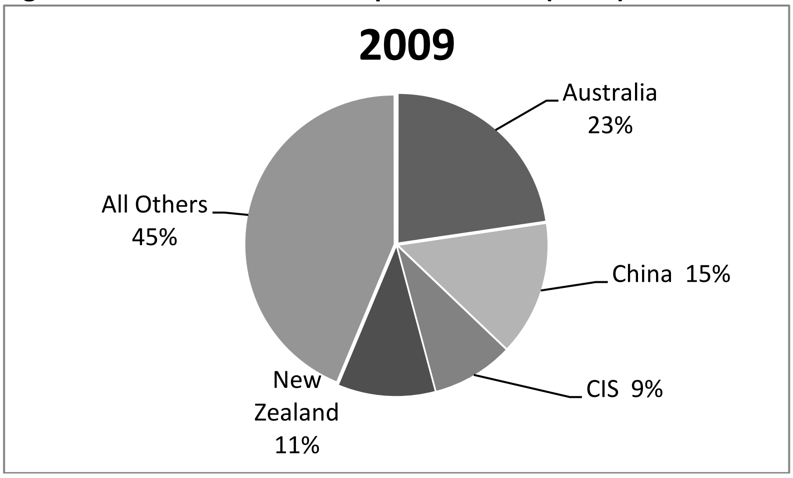
Wool types are mostly defined by the diameter of the fibres such as fine (<24 micron), medium (25-32 micron) and strong (>32 micron) (Meat and Wool NZ, 2008). Finer wool is used for apparel while coarser wool is used for interior textiles such as carpet, bedding and upholstery (Nicol and Saunders, 2009).

3. Global view of the wool industry

The world production of clean wool has been declining in the last 2 decades from over 2 million tonnes in 1990 to around 1.1 million tonnes in 2009 (IWTO, 2010). Around 60% goes into clothing and apparel with the remainder being utilised for the production of carpets, upholstery and other intermediate products (Beef and Lamb NZ, 2010b).

The three key players in the global wool industry in the last decade have been Australia, China and New Zealand. Australia is the biggest wool producer contributing 23% of the world's wool production in 2009 and 45% of the world's raw wool exports in 2008 (Figure 1&2). Australia's total production in 2009 was 397,000 tonnes (greasy) with 85% merino wool (<25microns) used for clothing and garments (IWTO, 2010; National Farmers Federation, 2010). China is the major market for the Australian wool exports (75%), followed by India (8%) and Italy (4%) (Wool Producers Australia, 2010).

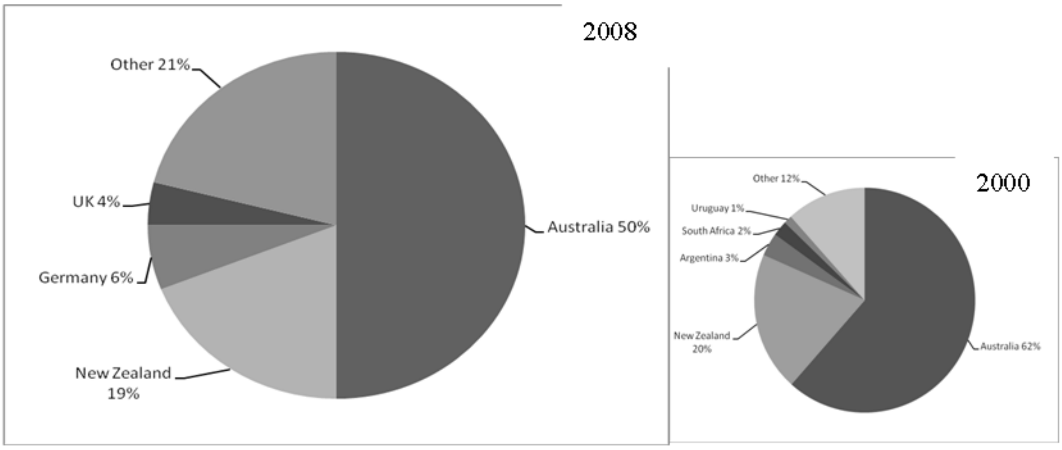
Figure 1: World wool production (clean) in 2009: share of main producers.



Source: IWTO (2010).

China is the second largest wool producer (15%), the largest wool importing country (Figure 1) and consumes the majority of the world's wool for carpet and clothing manufacturing. In the last few years, China increased their wool production and consumption while Australia and NZ reduced their wool production (Nicol and Saunders, 2009; Beef and Lamb NZ, 2010b). IWTO (2010) estimated that China imported almost 50% of the world raw wool in 2009 while its share was only 18% in 1995.

Figure 2: Global wool exporters in 2000 and 2008 (clean)



Source: Beef and Lamb NZ, 2010a; IWTO (2010)

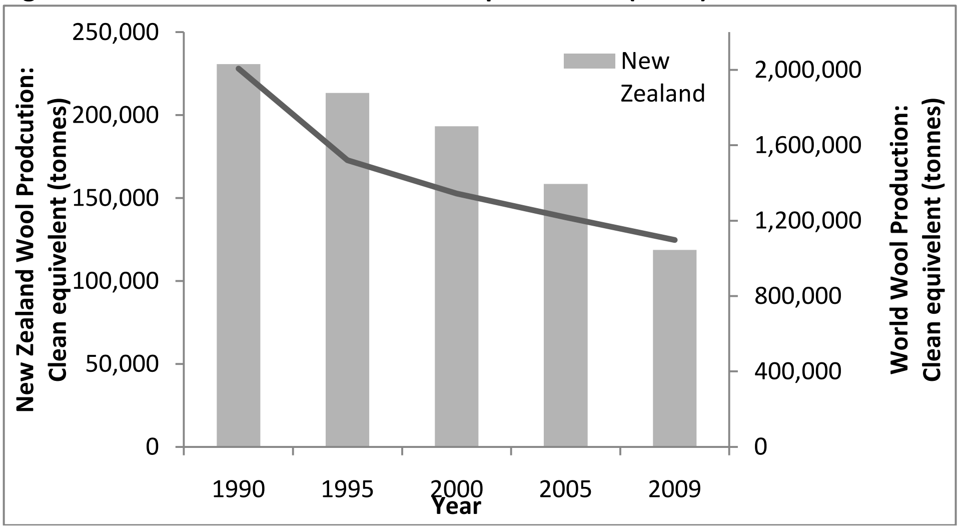
NZ is the third largest wool producer (11%) and the second biggest exporter (19%) after Australia (Figure 1&2). NZ is responsible for supplying 45% of the world's carpet wool (Meat and Wool NZ, 2008).

4. Current situation of NZ wool industry

4.1 NZ production

Almost 90% of the wool produced in NZ is strong wool (>35microns). New Zealand's wool production followed the global trend falling from 230,737 tonnes (clean) in 1990 to an estimated 118,801 tonnes (clean) in 2009 (Figure 3).

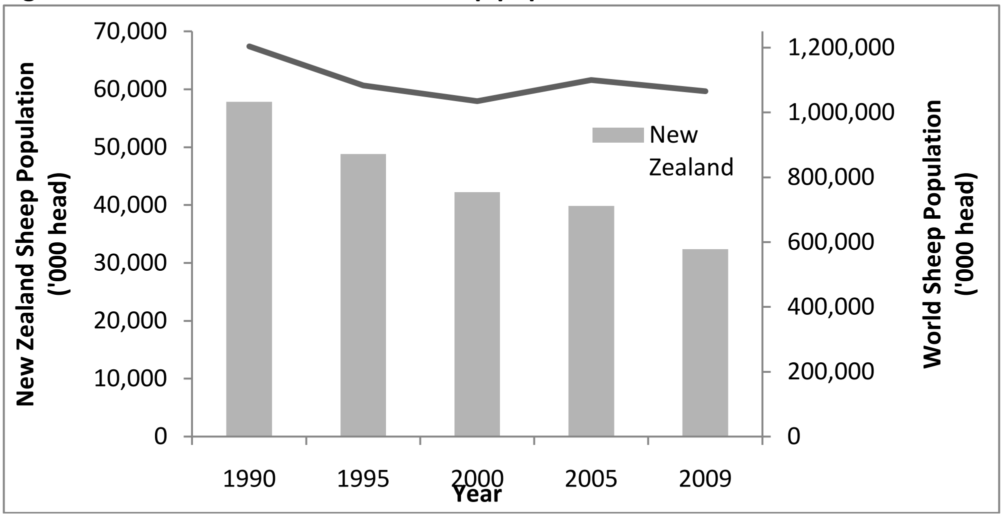
Figure 3: Global and New Zealand wool production (clean).



Source: IWTO (2010)

New Zealand's sheep flock size has also declined significantly in the last two decades from 57.8 million in 1990 to 32.4 million in 2009 (Figure 4). The flock is 41% Romney, 12% Coopworth and 6% Merino. Worldwide, there has been a change towards new breeds of sheep for meat production (IWTO, 2010).

Figure 4: Global and New Zealand sheep populations.

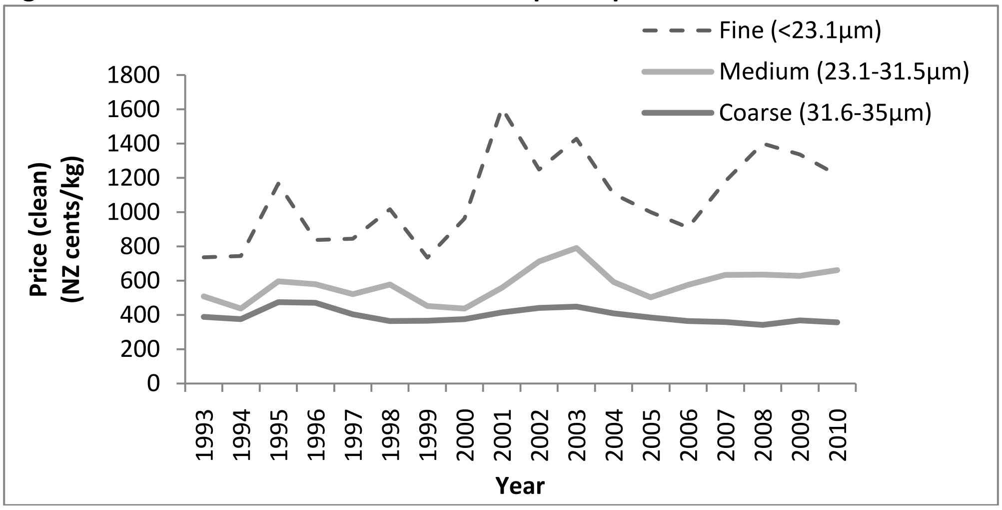


Source: IWTO (2010)

4.2 Wool Price

New Zealand strong wool prices have remained largely stagnant since 1993 ranging between a low of $3.56 per kg in 2010 to a high of $4.75 in 1995. On the other hand, the price of the fine wool reached $16 in 2001 (Figure 5).

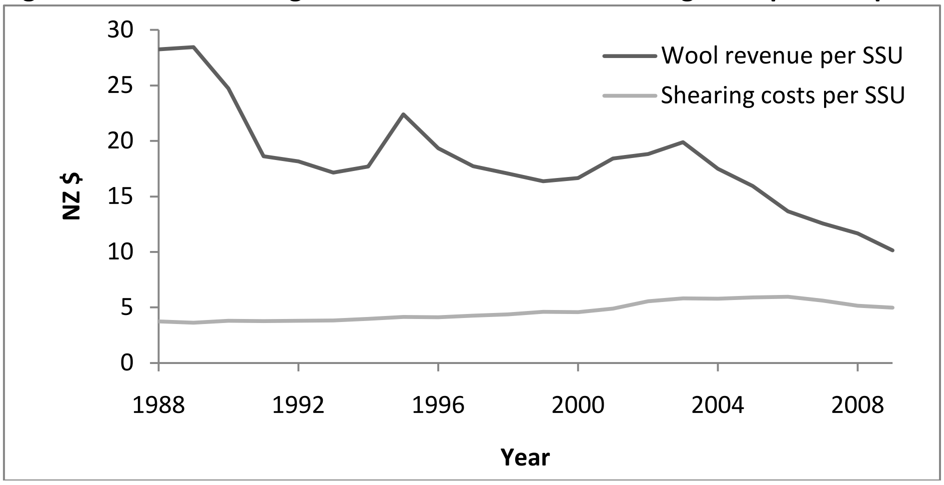
Figure 5: New Zealand clean wool indicator prices per season



Source: (IWTO, 2010).
Note: 1993 is 1992-93 season.

The price of wool paid to wool growers has also declined over the last few decades due to the increased input costs, which made the wool sector unprofitable (Meat and Wool NZ, 2008). Average real farm returns decreased over 100% since 1990 and over 50% since 2000 (Figure 6).

Figure 6: Trend in average farm real returns and shearing costs per sheep stock unit (SSU).



Source: MAF, 2010
Note: 2004-05 was used as the base year. 2008 values are provisional results. 2009 values are an estimate.

4.3 NZ wool exports

NZ exports around 89% of its wool production. Over 70% of NZ wool export is raw wool (used for manufacturing of carpets and rugs) and around 23% is value added wool products (tops, yarns, carpets, rags and other wool products). The top export markets for NZ wool have been China, UK, India and Italy in the last decade. However, the share of China increased significantly from 19% in 2005 to 36% in 2009, while the share of the other major destinations decreased (Figure 7). New Zealand's total value of wool exports in 2009 was $777.6 million which contributed to 1.9% of the NZ total merchandise exports (Beef and lamb NZ, 2010a; MAF, 2010).

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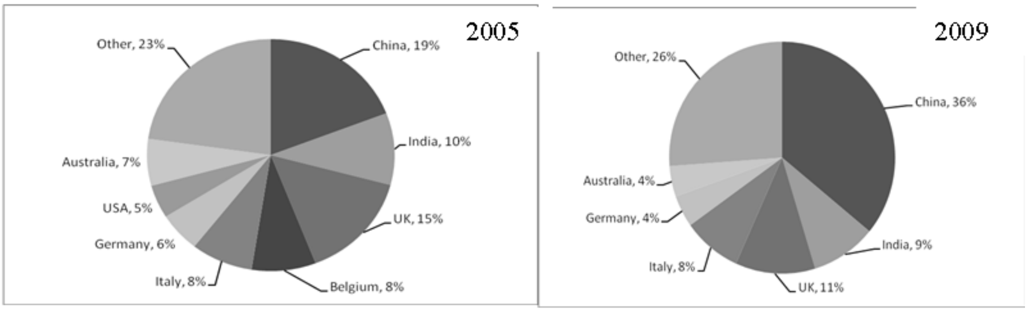
Figure 7: NZ wool export markets in 2005 and in 2009



Source: Meet and Wool NZ (2008); Beef and Lamb NZ (2010a)

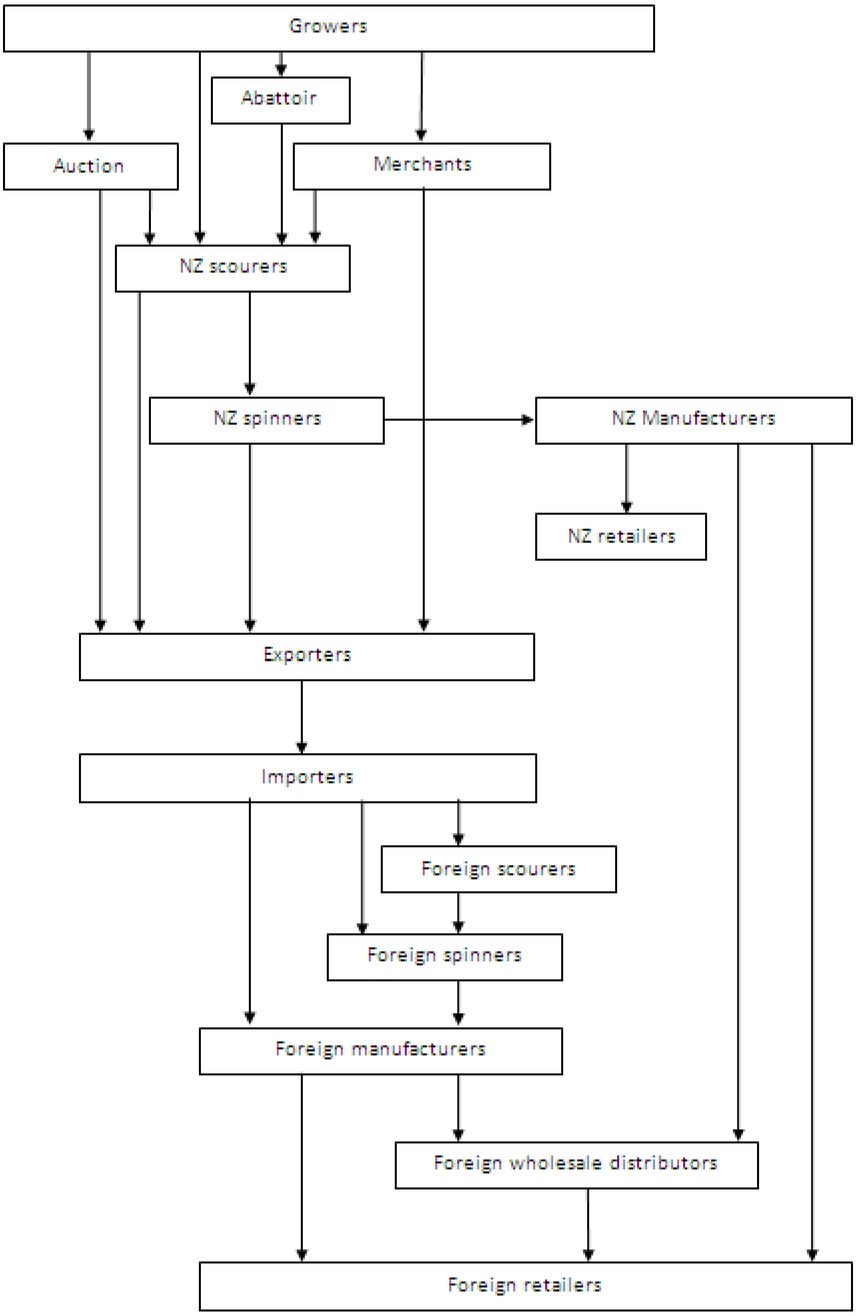
4.4 NZ wool structure and supply chain

Traditionally farmers sold their wool through auctions but recently there has been a move to sell privately. In 2009, approximately 40% of wool was sold through auctions, 44 % through private sale and 16 % was slipe wool (the wool taken from the hide of the sheep after slaughtering) (Beef & Lamb NZ, 2010a). The two major auction brokers are Wool Partners International (WPI) and Elders Primary Wool (EPW). WPI handle approximately 32% of the wool passing through auctions and EPW around 42%. The remainder is handled by a number of smaller auction brokers. Most of the wool sold privately is purchased by a large number of independent wool merchants that cultivate relationships with growers on a regional basis. Some exporters and manufacturers also have procurement divisions that deal directly with growers.

The majority of wool sold at auction or by merchants is purchased by exporters. The largest of these are J. H. Dawson, Segard Masural, J. S. Brooksbank, Bloch and Behrens and NZ Wool Services International. Around 70% of NZ wool is exported raw which is either scoured or greasy. Approximately, 70% of NZ's raw wool exports are scoured (Beef and Lamb NZ, 2010a). Exporters have the scouring done in NZ on a commission basis. There are two major scourers in the country, Cavalier Wool Scourers which handles approximately 65% and NZ Wool Services International that scours approximately 30% and also accounts for about 40% of NZ's total raw wool exports (NZWSI, 2010). Exporters of yarn will also have the wool spun locally on a commission basis. Raw wool and yarn is sold to foreign importers and traders who then sell on to raw wool processors or manufacturers.

Other important wool buyers include the two major carpet manufacturers Godfrey Hirst and Cavalier Corporation. Together they account for over 80% of the total carpet produced domestically. Both own spinning mills from which they meet their own requirements for yarn. Cavalier Corporation is also a 50% shareholder of Cavalier Wool Scourers. Godfrey Hirst has a major manufacturing plant in Australia and more than half of the yarn it produces in NZ is exported to Australia to meet the requirements of this plant. Godfrey Hirst sells approximately 75% of the carpets they produce in NZ domestically and exports the remainder. Cavalier also exports but sell the majority within NZ and Australia (Figure 8).

Figure 8: Flow of wool through the NZ strong wool supply chain



4.5 Main NZ wool branding initiatives

Several initiatives took place in the last few years aiming to revitalise the NZ wool industry in terms of promotion and marketing of strong wool at international markets. The organisations behind these initiatives are: Elders Primary Wool, Wool Partners International/Wool Partners cooperative and NZ Wool Services International. There has been also a non-textile related initiative for developing products using the wool protein Keratin – keratec (Wool Equities, 2009).

Elders Primary Wool (EPW)

In 2005, a 50:50 joint venture, called 'Elders Primary Wool' (EPW), was established between Primary Wool Cooperative (PWC) and Elders NZ Ltd. EPW acts as a merchant, broker and handler and also offers on farm services to growers (woolshed visits, advice and assistance with wool clip preparation, market reports and analysis of trends). It also conducts internal sampling, testing, binning and classing. Through EPW growers have the option to sell via auction, by private sale or marketed directly to spinners, carpet manufacturers or exporters. They handle all wool types from fine to strong (EPW, 2010). Recently, EPW handles about 220,000 bales annually of which approximately 80% is sold through the auction. It has 8 wool stores around NZ and has buyers and field representatives throughout the country (EPW, 2010). Primary Wool Cooperative has two directors on the board of EPW while the chairman of the EPW is from Elders. In terms of wool procurement PWC brought to the partnership its members that supplied approximately 100,000 bales of wool while Elders NZ Ltd brought around 50,000 bales. Elders NZ Ltd also contributed their trading, marketing and management experience and its international relationships and reputation. EPW took on the assets of PWC including wool stores and transport. The shareholders of PWC receive a rebate on wool sold through auction by EPW as well as benefits from their new Wool Marketing Enterprises (WME) initiative.

The recently initiated Wool Marketing Enterprises (WME) initiative is 100% owned by EPW and it aims to increase the demand and return for NZ strong wool in the US carpet market. In 2010, after a few years of brand development, WME launched their brand Just Shorn targeting the highest end of the carpet market in the US. The brand aims to capture the apparent trend amongst high end consumers towards sustainability and natural fibres using emotive images of Kiwi farmers as responsible custodians of land and stock. The Just Shorn brand was a result of a formal agreement and partnership between WME and a large US carpet retailer, CCA Global Partners (CCA). The Just Shorn brand use 100% NZ wool, which also retain a specialised trace technology as quality assurance of the NZ wool used in the branded carpets and rugs. A farm accreditation programme is also used aiming at providing assurance that high quality wool is produced in a responsible way with regards to environmental and animal welfare issues.

Wool Partners International/Wool partners cooperative

The origin of Wool Partners International (WPI) was a PGG Wrightson response to an initiative funded by Meat and Wool NZ and NZ Trade and Enterprise to develop a strategy for the NZ strong wool. Their report identified the industry structure as a main obstacle and recommended more unification amongst growers and more collaboration amongst industry participants (MAF, 2003). In 2008, Wool Grower Holdings (WGH) Limited (a company that intended to be a 100% grower owned co-operative) entered into a 50:50 joint venture with PGG Wrightson and established a grower-owned wool company called Wool Partners International (WPI). PGG Wrightson contributed financially to the partnership but contribution from the farmers side never substantiated. WPI owns a National Wool Auction Centre in Christchurch, a procurement network and purchased the Wools of NZ group of companies and the export company Bloch and Behrens. The aim of WPI is to take wool 'from farm to market'. WPI have established some marketing partnership with several European and US carpet distributors and retailers (e.g. Headlam Group, etc.).

Wools of NZ is a marketing division that was originally owned by The NZ Wool Board and then by Meat and Wool NZ and then purchased by WPI. It consists of 18 staff and has offices located in the USA, UK, China and New Zealand. The Wools of NZ brand was launched in 1994 as an assurance for quality and style and allowed to be used on carpets that contained a minimum of 60% NZ wool and which must pass tests of durability, appearance retention and colour fastness. Manufacturers had to be licensed to use the brand. Wools of NZ have 100+ partners involved in yarn or carpet production (Wools of New Zealand, 2010).

In 2010, WPI developed an integrity brand named Laneve, providing assurance to the consumer that the wool is sourced from growers following high standards in terms of animal welfare and environmental sustainability. Part of this marketing initiative is communicating the advantages of wool over synthetic fibres; such as sustainability, renewability and wool fibres ability to absorb toxic gases from the atmosphere. Laneve has 40+ partners involved in yarn or carpet production in Asia, Europe, North America and the Pacific. Recently, the Wools of NZ also provided technical support to a NZ company who developed, together with coffee house Starbucks, a fabric called WoJo using 70% Laneve branded wool and 30% jute from recycled coffee sack (Scoop, 2010a).

Aiming at raising capital from farmers, an investment prospectus was released in November 2010 to fund a new organisation named Wool Partners Cooperative (WPC). The prospectus required that enough farmers invested to secure at least half of NZ strong wool clip. If the capital raising initiative is to be successful WPC would purchase WPI with its wool procurement team, the auction management team, the marketing division which includes the Wools of NZ brand and Bloch and Behrens (WPC, 2010). WPI would keep only their logistic and warehouses services.

NZ Wool Services International
NZ Wool services International (NZWSI) is a publicly owned company which was originally set up as a subsidiary of Wool Board NZ in the early 1990's using money raised from wool levies (Daniell, 2010). It was privatised in 1996 and originally growers held a 60% shareholding which declined to 20%. NZWSI scours approximately 30% of NZ wool. It also has major procurement and export operations. WSI has obtained European Ecolabel certification and is also certified to produce organically scoured wool by AsureQuality (NZWSI, 2010).

NZWSI has three scored wool brands: Purlana, Red Band and Glacial. Purlana was launched as a direct supply initiative in 2005 with focus on sustainability and traceability. Purlana is a paper based traceability program from procurement though to processing and marketing. The program requires growers to exclusively supply NZWSI with wool for a contract period of between one and three years. NZWSI offers two main direct supply options: forward contracts, based on a forward price of up to twelve months or spot rate contracts. NZWSI claims to provide a premium wool payment and a loyalty rebate. The long term supply contracts are intended to create consistency in timing, quantity and quality (NZWSI, 2010). The key benefit of the direct supply system is reducing the cost to farmers per bale due to minimising handling costs, direct from farm to wool scour, no brokering charges, no additional charges for processing small lines, no representatives on road, no marketing fee charged to farmers (Scoop, 2010b). The Red Band is an initiative that involves all wool bales having a red band printed on them to distinguish their scoured wool. Glacial is marketed as being a premium scoured wool product, which is exceptionally clean and bright due to a custom developed scouring process that involves double scouring and bleaching, providing the Glacial wool with a superior capacity to take dye. It is targeted for the manufacturing of pure white and pastel shades.

5. Conclusions

The wool industry is one of the oldest agricultural sectors in NZ and still remains an important sector for the NZ economy and significant source of employment in the country. For many decades the industry has faced ongoing competition from synthetic fibres which reduced the profitability of the sector. The Government together with several wool industry players agreed that actions for the revitalisation of the sector were necessary. As a response different marketing initiatives have been created aiming to increase demand for NZ strong wool internationally. The main tools of these initiatives are wool branding, traceability, brand licensing, distribution and promotion partnerships, innovative products, and the promotion of consumer awareness of the environmental benefits of wool. These initiatives seem similar but they are at different level of brand development and market investment and their potential is still to be realised. There is some criticism that these marketing programmes have a modest contribution to solve the endemic fragmentation problem of the wool sector. An industry wide initiative is still required to address these challenges. How the competing marketing initiatives will evolve and who will reap the benefits is still to be determined.

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