Wool Production, Markets and Prices

Marius Cuming, Australian Wool Innovation

Agribusiness Today 2011
“Making the most of your resources in lamb, sheep & wool”
Thursday 11th August 2011
Who is AWI?

• AWI is an industry-owned, not-for-profit company that has three functions:
  • Research and Development
  • Marketing
  • Industry Services
• Through these, AWI seeks to:
  • Enhance profitability, international competitiveness, and sustainability
  • Increase demand and market access
Why the future looks bright for wool

• Low and not increasing rapidly...Supply

• Good signs from the East ... The market

• Reconnecting the world with wool ... ...where and why

• Not just skinny models:
  How woolgrowers are also selling wool
Australian wool growers produce:

- 90-95% of all Fine/Superfine Merino
- 45% of Medium Merino
- 10% of fine-Crossbred wool types
- <0.5% of coarse Carpet types

So, Australian growers will almost always directly benefit from demand growth for <19.6 um.

They are unlikely to directly benefit from demand growth > 24.5 um.
Supply is tight

Global sheep numbers are low.

Demand for meat protein is strong and forecast to grow, especially in the emerging markets.
Global sheep numbers are low. Demand for meat protein is strong and forecast to grow, especially in the emerging markets.

Australian supply is low, especially in the fine diameters

Sheep numbers and wool volumes will take years to recover, competing against demand for meat
Demand side fundamentals

1. The Asia-Pacific decades
2. Wool - Natural Fibre
3. Wool – Fashion Fibre
Flash in the pan, or fundamentals?

Data source: AWEX, RBA (FX rates)
The Asia-Pacific decades....

Global consumer markets are changing.

The centre of gravity is shifting to Asia.

China is now a bigger economy than Japan, and will soon be bigger than Western Europe (Eurozone).

For wool...the big three: climate, affluence and population.
AWI Focus – High Value, Less Seasonal, LOHAS

EVERYDAY OPPORTUNITIES?

CREATE

GROW

DEFEND

HIGH RETAIL PRICE PER KG PER YEAR

NEW Babies Medical Underwear Sleepwear

OCCASIONAL/SEASONAL

EVERYDAY

LOW RETAIL PRICE PER KG PER YEAR

Luxury suitings

Mass market suitings/trousers

Mid-layer knits (e.g. cardigans)

Lightweight knits

Coarse woven jacketing

Shetland & Aran knits
3 take-home messages

1. **Demand drivers are working in wool’s favour:**
   a. The emergence of affluent Asia
   b. The LOHAS consumer
   c. Wool is in fashion

   AWI has a number of long-term marketing programs supporting demand growth in these areas – *Gold Woolmark, Campaign for Wool, No Finer Feeling*.

2. Reflecting strong prices, **sheep meat and wool production are recovering, but recovery will be slow** given due to competition between them.

3. **Wool outlook is strong, but expect volatility**
AWI/Woolmark Marketing Programs
AWI Strategic Focus

Targeted……Leveraged …… Measured

1. Global Campaign for Wool: natural, renewable and sustainable … retail, brand + media partners

2. Woolmark Gold: linking Australian woolgrowing, European tailoring and Chinese aspiration. “Dress with style is to dress with wool”

Partnership between Woolmark and 8 key fabric brands.

Objectives:

• Drive demand for wool as a premium luxury fibre via targeted consumer education

• Defend the Chinese Men’s Wear segment against the threat of fibre substitution

• To provide a comprehensive platform from which to proactively market partner brands and ultimately drive sales.
Why China?

- Unlike the West, 70% of luxury consumers are male, and this market is forecast to grow at 15% - 20% per annum.
- They have the money, but not the sophistication to know how to spend it.
- They need to be educated on what lies behind the brand; heritage, craftsmanship, quality and preeminence.
- They like to pursue foreign brands that represent status and recognition.

Source: Business Blue Paper issued by Chinese Academy of Social Science in 2010.
The first Gold Woolmark Partner program achieved a combined audience of over 316,000,000, and has resulted in over 2,000,000 online searches for Woolmark Gold Partners.

The most influential Textile magazine throughout Asia voted the Gold Woolmark programme the top industry marketing event of 2010.

The campaign has been extended and at no charge is now running on China Airlines.

Successfully positioning Woolmark Gold Merino fabric partners and Merino fibre with a luxury concept in the Chinese market.

Wenzhou Garment Association sales up 15%
Campaign for Wool
Campaign for Wool
Merino Wool – No Finer Feeling
Merino Wool.
No Finer Feeling
Fibre Advocacy
Fibre Ambassadors
Product Partnerships
The major driver of demand for finer wool is fashion.

Woolmark No Finer Feeling campaign launched in December 2010

3 year campaign, initially launched in UK, Italy, Germany, Japan, and USA.

Targets include influential magazines such as Vogue, ELLE, GQ.

27 million people in the 5 key markets saw the campaign material in its first 4 months

See:  www.merino.com
Brand Ambassadors
“Merino wool. My natural choice.”

The first in the series of industry Leaders prepared to talk openly about their love of Merino wool
“Merino wool makes me feel at home.”

Margherita Maccapani Missoni

NO FINER FEELING. MERINO.COM
Product Partnerships
LOOK FOR ARMANI, FIND MERINO

NO FINER FEELING. MERINO.COM

GIOVANNI ARMANI
Look for MaxMara, find merino wool.

No finer feeling.

MaxMara
Market Impact To Feb 2011

Number of people reached over 30 million
Not just skinny models selling wool

Merino at home among the snow gums

As a source of Snowgum merino, the 5600 merinos at Rose and Liz Sherlock's property near Cooma in the high country of NSW could not be better advocates for the natural fibre they grow.

The animals thrive in the high country region, where temperatures range from -12°C in the depths of winter to 40°C in the summer. It is the weather station on the property has recorded a temperature range of 31 degrees within one day.

So, it is no coincidence merino fabric is so comfortable in both cold and hot conditions; it has been designed that way through many years of evolution.

"Our sheep do really well up here. The Australian merino is an amazing animal and has adapted so perfectly to every Australian landscape, including this property which I am pleased to say, has plenty of snow gums on it as well as "maenas" and ribbon gums," Rose adds.

Snowgum merino. Naturally amazing.

No itch. EXTREMELY fine wool can be comfortably worn against the skin.

No Odour. Naturally keeps body moisture away from bacteria before it can cause unpleasant odour.

Easy Care. Machine washable.

Breathable. Naturally absorbs over 30% of its weight in moisture vapour from the skin and rapidly releases it into the atmosphere.

Quick Drying. Retains its insulating properties when wet and dries fast.

Temperature Regulating. Keeps you warm when it's cold and incredibly cool when it's warm.

Fire Resistant. Wash treated, naturally flame retardant and self extinguishing.

Anti Bacterial. Prevents moulding and has a reduced attraction to lint & dust.

Sustainable. Merino is derived from grass, sunlight, air and water. Sustainable, biodegradable, completely natural.
Summary

**Campaign for Wool:**
- Impacted 208,889,394 people, mostly in the UK
- Involved 32 partners and 600 retail outlets
- Total Investment to date is: $1,500,000

**Gold Woolmark**
- Impacted 300 million people, mainly in China
- Involved 8 key manufacturing partners and 7 media partners and 18 Chinese garment manufacturers/brands
- Total Investment to date is: $700,000

**No Finer Feeling**
- Impacted 28 Million luxury goods consumers across UK, France, Italy, USA, Japan and China.
- Involved 26 media partners, two major trade partners with that number expanding as we speak.
- Total Investment to date is: $1,800,000
Where to from here?

**Extend** the Campaign for Wool

- In the UK
- Into Japan, USA, Western Europe, Australia

**Expand** Gold Woolmark

- Consolidate retail sales in menswear
- Introduce and build sales in Womenswear

**Deepen** No Finer Feeling Campaign

- Broaden fashion coverage and focus on touch
- Introduce Mothers and Babies
- Refocus Sports and Outdoor
- Rebuild below-the-waist

**Strengthen** product claims through science

- Health and wellbeing
- Natural, Biodegradable. Renewable
- Ecologically preferable
Thank you!
Who pays our bills?

Clothing markets
1. USA (23%)
2. China (10%)
3. Japan (6%)
4. Italy (6%)
5. UK (5%)
6. Germany (5%)
7. France (4%)
8. Russia (4%)

US$1.4 - 1.5 trillion global clothing spend pa
(static since 2006)

US$304 per head per annum

Top 7% spend >$1,200 pa (36% of total)
Next 11% spend $600-1,200 (25% of total)

Wool ~ 6% value share: 1% vol share
An objective identification of ‘influence markets’ for wool consumption

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<thead>
<tr>
<th>World’s Most Influential Fashion Designers*</th>
<th>World’s Most Influential Fashion Markets*</th>
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<td>1. Louis Vuitton (France)</td>
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<td>14. Vivienne Westwood (UK)</td>
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<td>15. Diesel (Italy)</td>
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* Interbrand 2010 Influential Brands Reports
Merino Wool – No Finer Natural Fibre
The Asia-Pacific decades

There is a strong correlation between GDP growth and consumer spend growth, especially luxury market growth (Bain & Co).

Weak outlooks in traditional key wool markets (e.g. USA, Japan, UK, ...) balanced by bright outlook for emergent markets (China, India, Russia ...)

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3 best practice indicators

1. **Knowledge of cost of production** – what is an acceptable price for you?

2. **Market awareness** – source market intelligence from a variety of sources, and explore options for managing price volatility

3. Have a farm **business plan which addresses wool quality**
• China represents 27.5% of the global luxury market.

• Number of wealthy households in China reached 1.6 m in 2008 growing at around 16% per annum. By 2015, there will be more than 4 m wealthy households in China.

• More wealthy individuals than UK (4th largest in world).

• Chinese luxury sales surpassed US in 2009 - world’s fastest luxury market growth 12% YOY.
The Campaign for Wool

His Royal Highness the Prince of Wales is a strong believer in sustainable practices.

Recognising the need for natural solutions, HRH has agreed to be the patron of The Campaign for Wool, an initiative based on his drive for universal sustainability.

The campaign covers **apparel** (finer wools) and **interiors** (coarser wools).

The campaign will run for five years.

2010 was a success…

2011 has just begun…
Natural …
… elegance
… fun
… touch
… style
… etc
Effective marketing programs require . . .

**Product**

+  

**Benefit**

=  

**Reason to Buy**

+  

**Information**

=  

**Opportunity to Buy**

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LUXURY FASHION

MERINO.COM

PARTNERS