

**AGRICULTURAL  
ECONOMICS  
RESEARCH UNIT**

LINCOLN COLLEGE

PROCEEDINGS OF A SEMINAR  
ON WOOL MARKETING IN THE 1980s

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Owen McCarthy & John Pryde

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### *THE AGRICULTURAL ECONOMICS RESEARCH UNIT*

THE UNIT was established in 1962 at Lincoln College, University of Canterbury. Its major sources of funding have been annual grants from the Department of Scientific and Industrial Research and the College. These grants have been supplemented by others from commercial and other organisations for specific research projects within New Zealand and overseas.

The Unit has on hand a programme of research in the fields of agricultural economics and management, including production, marketing and policy, resource economics, and the economics of location and transportation. The results of these research studies are published as Research Reports as projects are completed. In addition, technical papers, discussion papers and reprints of papers published or delivered elsewhere are available on request. For list of previous publications see inside back cover.

The Unit and the Department of Agricultural Economics and Marketing and the Department of Farm Management and Rural Valuation maintain a close working relationship in research and associated matters. The combined academic staff of the Departments is around 25.

The Unit also sponsors periodic conferences and seminars on appropriate topics, sometimes in conjunction with other organisations.

The overall policy of the Unit is set by a Policy Committee consisting of the Director, Deputy Director and appropriate Professors.

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I. PREFACE

When this Seminar was announced there were some raised eyebrows and the question was asked: Why hold a Seminar on wool marketing when the price of wool has never been higher?

There are a number of good answers to such a question.

Firstly although it is true that the price of wool has never been higher in absolute terms, in relative terms it is low and continually losing ground with respect to competitive fibres and most other comparable commodities.

Secondly we thought that the mirage of high prices was engendering an unwarranted complacency in the industry which would not be conducive to the introduction of measures designed to reverse the adverse trend in wool's market share and image with the consumer.

Thirdly my wool economics research group had some views, not necessarily new or profound, which they wished to try out on the industry.

I asked John Pryde to select a group of speakers who were not dyed in the wool pro or anti acquisition but who had some new directions or initiatives to suggest, if that was possible. John responded with his usual flair. Nevertheless I accept responsibility for the product mix.

Professor Owen McCarthy  
Director

29 October 1976



II. LIST OF SPEAKERS

The Hon. P.I. Wilkinson, M.P.,  
Associate Minister of Finance,  
Parliament Buildings,  
Wellington.

Mr E.P. Wilding,  
Wilanda Downs,  
Ohai,  
Southland.

Mr J.H. Bayly,  
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Mr W.E. Carter,  
Executive Manager,  
New Zealand Wool Buyers' Association,  
P.O. Box 2911,  
Wellington.

Mr D.A.R. Haslam,  
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Christchurch.

Dr L. Ward,  
Economic Adviser,  
Australian Wool Corporation,  
G.P.O. Box 4867,  
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Australia.

Professor W.O. McCarthy,  
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III.

MAJOR CONCLUSIONS CONCERNING

WOOL MARKETING IN THE 1980s

1. Government will continue to support the Wool Marketing Corporation's reserve price scheme which will provide a stable financial base for sellers.
2. Nevertheless profitability will be the main factor determining the level of wool output in the 1980s.
3. Government will not be ruthless enough in controlling inflation. Hence, farm costs will continue to be too high.
4. There is some scope for cost economies in wool marketing including:
  - (i) Better clip preparation on the farm.
  - (ii) Greater centralisation of wool selling including sale by sample and sale by separation.
  - (iii) Non containerisation and non Conference participation in transport.
5. However greatest scope for increased profitability lies in raising the price paid for wool.
6. This will only occur when the Wool Marketing Corporation and the wool trade engage in commercial activities which provide wool end users with a fibre and associated services at least equal to its man made competitors. This includes:
  - (i) Providing wool of a specified and repeatable type at the required place and time and at a stable price.
  - (ii) Providing promotional facilities for the finished product probably via I. W. S.
  - (iii) Constantly assessing and satisfying the changing needs of manufacturers in all consuming countries.
7. The further processing of wool in New Zealand, say into carpets and other furnishing fabrics merits expansion.



IV.

THE NEW ZEALAND ECONOMY

IN THE 1980s

by

The Hon. Peter Wilkinson

1. Introduction

I have been invited to speculate about the New Zealand Economy in the 1980s. In turn, I must issue the usual caution about the perils of speculation. This paper is not a learned scientifically precise treatise; it is merely designed to provoke thought and discussion (I was about to say "trigger" thought and discussion but thought better of it!) as a backdrop to the main theme of this Seminar.

To realistically peer into the future we must first cut ourselves down to size. We are a small, vulnerable, and in many ways self-deluding, country, gradually emerging from a colonial economy and rendered the more dependent in the process on people, politics, events, market trends and the like overseas, over whom we have no control, or next to no control. Furthermore within the international community on which we are so dependent, there is so much that is uncertain (as witnessed by, e.g., international currency movements in the past two or three years), and the trend to world-wide uncertainty is intensifying.

Consequently, no-one can predict with real accuracy or detail what the New Zealand economy will be like in the 1980s.

## 2. General factors affecting the New Zealand Economy

Some factors which could affect our economic scene most profoundly in the next decade cannot be taken into account at all - such factors as new technological changes and mineral discoveries. We should never forget how great the effect of such changes can be; for example, it would be literally true to say that with the advent of refrigeration, the economy and history of New Zealand changed totally and irrevocably. We cannot discount the possibility of some technological breakthrough of a similar order in the 1980s.

Another factor not without some influence which we cannot know ahead is, of course, the political philosophy of the Government of New Zealand in the 1980s. In the 1960s many people slid into the comfortable belief that whatever political party was in power the same basic economic trends would continue. In some respects time proved them very wrong - an example being the growth of the public sector in the economy during the brief tenure of office of the third Labour Government.

On the other hand, some basic economic policies are almost certain to continue into the 1980s irrespective of the political philosophy of the Government of the day. Full employment will remain one of the prime policy objectives; so too will the encouragement of a broader export-earning base; and neither political party can be expected to retreat from the new emphasis on stabilisation as a long term instrument of agricultural policy.

Some things we can predict with complete or near-complete certainty. During the next decade for example, New Zealand's population will pass 4 million, a million or more of whom will live around Auckland; the effect of the big post-war baby boom will have spent itself by the late 1980s and a smaller annual increment to the labour force will result; despite continued diversification in the

economy the primary production sector will continue to provide the larger part of our export earnings; our export-product base will continue to broaden, and the number of our markets will increase; New Zealand's export marketing operation will be even more complex than it is today, requiring sure footwork to adjust to abrupt changes in market access conditions, currency fluctuations, erratic political trends; we must, in fact, be ready for a marketing climate which will be volatile even by today's non-too-stable standards.

Some of our most basic marketing problems will still be with us in the 1980s because they are unalterable. The perpetual natural barrier to cost competitiveness caused by our distance from overseas markets will still be with us. Whatever further advances are made in distribution technology and productive efficiency the cost of marketing export products will remain a relatively high proportion of total cost.

And technological advance - which could be our salvation - also has its debit side so far as our future as a trading nation in an increasingly competitive trading world is concerned. An obvious example is continuing product sophistication in the field of synthetic substitutes; another example is the catching-up trend in once technologically backward agricultural countries, which will make it even more of a challenge for us to overcome our disadvantage of distance.

Then there is the question of our size. We sell products that have many alternative sources of supply and a number of near substitutes, and as a small contributor to total world supply we must take the international price level as given. This applies not just to our export prices; take the oil price, as a case in point. My belief is that the OPEC countries will continue to raise the oil price by as much as they think the world market will take - and this means not what the tiny New Zealand market will take, but what Japan, Western Europe and the other big economies will take.

In the 1980s - as much as in the 1970s - we will find that, because of our size, there will be many situations in which we have limited or no room for manoeuvre.

So there are some factors which will influence the economic scene in the 1980s which we cannot begin to predict; and others which we can predict with certainty.

### 3. Likely trends in exports

But there is, of course, a middle group of factors - factors we can speculate about but cannot predict with any real certainty. An excellent - and key - example is the relative growth of the main export-earning sectors. An interesting pattern emerges from the planning projections of the Government Departments most concerned which - if they are realised - will have major structural implications for the economy in the 1980s:-

The Agriculture Department is working on the basis of a 2 to  $2\frac{1}{2}$  per cent per annum increase in export earnings for pastoral farm products. This is a lower rate of growth than for the other export earning sectors. But I emphasise that Government is basing its policy thinking on the assumption that in the 1980s pastoral farming will remain the source of by far the largest share of our export earnings.

The Trade and Industry Department is working on a growth target for manufactured exports of \$1000 million by 1980, which will require a cumulative annual growth rate of nearly 18 per cent.

Official Forestry export predictions do not go beyond 1977, when earnings are predicted to exceed \$200 million compared with not much more than \$100 million as recently as 1975.

For the rest of the 1970s and much of the 1980s, the industry will reach a production plateau, but a massive upsurge will begin again in the late 1980s and through into the 1990s.

We could see spectacular growth in two other export-earning fields. One is fishing - already - to the surprise of many people - earning \$25 million annually in export receipts, which officials believe could be earning us \$70 to \$100 million within ten years, on the basis of a 5 per cent annual growth rate.

The other is tourism; the Tourist Department - working on an expected growth rate of 8 per cent per year - sees New Zealand handling a million overseas tourists a year towards the end of the 1980s, and I'm sure the implications for, say, the beef industry, of tourist growth of this magnitude will be readily appreciated.

We tend to speak of the 1980s as though they were a long way off. But in fact of course the 1980s are now not so far off, and, at least in the early part of the decade, can be expected to be moulded to an important extent by trends already apparent.

#### 4. Problems of economic management

I want for a minute to look at the main problems we inherited on coming to office and their inter-relationship with each other, because they give an indication of the sort of economic balancing act New Zealand's situation forces on us, and which can be expected to continue as part of the economic scene in the 1980s.

None of the visible problems we inherited were new, though nearly all were of a greater magnitude than ever before. The balance of payments deficit was unprecedented as well as unsustainable; the internal deficit before borrowing was the worst we had ever known; and, of course, the rate of inflation, running at



15 per cent, broke all previous records; the level of unemployment when we took office was not an all-time record, but was certainly the highest for a November month since before the war.

Behind these more immediate, and now well-publicised, danger symptoms we saw another, deeper-rooted, symptom of economic ill health, one with major implications for the 1980s. It took this latest crisis to clearly reveal what many of us had long suspected, that New Zealand has been sliding into a state of structural economic imbalance that can only be rectified by a reduction, for the time being at least, of our standard of living. What this latest crisis has revealed is a doubt about our capacity, even when export prices recover, to earn enough in the short term to sustain the living standard that most New Zealanders have been taking for granted.

Most thinking people who experienced the economic ups and downs of the 1960s understand and accept that belts have to be tightened when the balance of payments position is bad, but nearly everyone expects to be able to loosen their belts when conditions improve. Now we have to give a warning that this time people may not be able to take their belts back to the old notch as trade conditions pick up. There is an area of weakness in our economy that goes deeper than the ups and downs of the trade cycle. Unless this is dealt with decisively and effectively there is no reason to be particularly glowing about our expectations for at least the early part of the 1980s.

The truth is that, economically speaking, we have been living in a fool's paradise for a long time. Our overseas earning power has simply not kept pace with our standard of living aspirations. Borrowing, and subsidies, and careful (but increasingly thin) spreading of Government spending, have hidden the true extent of the slide. In the 1970s the volume of imports in relation to real Gross National Product has risen quite rapidly, but the ratio of export

volume to real Gross National Product has been falling. These figures indicate that the New Zealand economy has been becoming steadily less competitive internationally; we have been able to export less of our production, and even our ability to compete with imports has slipped.

The downward slide accelerated over the past three years, to the point where a crunch had to come, and New Zealand was at the crunch when the present Government came to power.

#### 5. The problem of inflation

To assess our chances of being able to enter the 1980s with a much healthier economy than we now have, I want now to look in more detail at one of the main problems we face - probably the most important single problem we face - inflation.

The other day I was talking to the Finance Minister for Singapore, who told me that his country's annual inflation rate was axed from 35 per cent in the year of the first major shock wave from oil price increases, down to 4 per cent the following year. When I asked him how they had done it he said "We went without!" Imagine New Zealand attacking inflation with such remorseless self-denial!

The truth is that we could axe the domestic component of our own inflation rate fairly rapidly if we chose to be really ruthless, at the cost, however, of massive unemployment, a major erosion of confidence within the economy, a major degree of individual hardship, and other side effects which we would regard as intolerable.

But, as the latest consumer price index figures show, a New Zealand Government (even within the limiting bounds of what the average New Zealander regards as acceptable) can curtail the growth of inflation if it is skilful enough and determined enough.

We have achieved this by a major cutback in Government spending, by wages and incomes restraint, and by cutting immigration right back.

It was critically necessary that we did achieve a degree of control over the growth rate of inflation this year, because we may feel the sting of some further imported inflation next year; but I don't want to go further into that aspect. The point I want to emphasise by considering inflation is that we have shown that, with proper economic management, and the co-operation of the public, we can deal with even the most intractable problems facing us, provided they are within our area of control, and this is a good augury for the 1980s.

#### 6. Economic planning

There is much more awareness now of the need to plan ahead, even though we know many aspects of the economy cannot be planned ahead. This month the Task Force under the Chairmanship of Sir Frank Holmes reports back to Government. The Task Force has been examining trends, issues, and problems and options available in the future. In the past too many economic policy decisions have been based purely on short-term considerations. We've learned (to our cost) that there must be far more emphasis on the longer-term. The report of the Task Force is likely to be a major breakthrough in this respect, and this is another good augury for the 1980s.

Many other basic policy issues, already very much alive, are going to influence the economy in the 1980s. These include:-

- (a) The extent to which we decide we are ready to sacrifice economic growth for "quality of life" objectives.

- (b) The extent of our success in transferring resources to forms of production in which we are internationally competitive.
- (c) The extent to which we are successful in finding a more effective wage adjustment mechanism.
- (d) The extent to which we are prepared and able to give more incentive for effort in our taxation system.
- (e) The extent to which we are ready to allow overseas investment to play a greater part in our development.

There are others, but these are some of the most important.

## 7. Conclusion

In this address I have made no attempt to deal directly with the outlook for wool in the 1980s.

I was not asked to comment on wool marketing, nor do I have the expertise to do so.

In my foregoing comments I have stressed that Government is basing its policy thinking on the assumption that pastoral product earnings will continue to dominate our export receipts in the 1980s. We believe that wool will continue to demonstrate its staying power in the next decade, and that New Zealand as a whole - not just the producers - have a major vested interest in the future of the wool industry.

So far as Government's wool income policy for the future (as we approach the 1980s) is concerned, I think that the following extract from a recent speech by the Minister of Agriculture is a useful statement of our position:-

"Turning now to future seasons, it is the Government's firm intention that there should be a continuing wool income stabilisation arrangement rather than a scheme for one year only. It is the Government's belief that it is in the farming industry's long term interests for stabilisation schemes to be in operation on a permanent basis, particularly in view of the effects on production and farmer confidence that fluctuating incomes and rising costs have had especially in recent years. That is not to say, however, that the Government considers the present wool stabilisation arrangements will necessarily continue unchanged. They are viewed by Government as evolving arrangements which will be subject to review and adjustment if necessary. The Minister of Agriculture and Fisheries is prepared at any time to discuss and give consideration to representations for improvements to the wool income stabilisation schemes, including procedures for fixing levies and trigger prices. "

So, looking into the future, there are many unknowns. There are threats, challenges and opportunities.

We cannot say for certain what will happen to our economy in the 1980s. What I have tried to do is identify the main factors that will influence it. No one, I think, can really do more than that.

Though no one is more aware than I am of the problems we will face I believe there is a built-in resistance in our economy, because of the country we have, and the type of people we are.

A SOUTHLAND FARMER'S VIEW OF  
WOOL MARKETING IN THE 1980s

by

Peter Wilding

1. Introduction

Before commenting on what I believe will be the trends in wool marketing in the 1980s, there is one observation I wish to make and which I think is relevant from the point of view of the wool grower. I believe that there will have to be change in the mental approach of the wool grower to the marketing of wool.

With one or two exceptions the grower enjoyed a satisfactory return from the sale of wool throughout the 1950s and right up until the end of the 1960s. He enjoyed a substantial measure of control over the way that wool was marketed in New Zealand, and the farmer's interest in these matters was virtually free from any form of Government control.

The advent of the 1970s however has witnessed the arrival of very different circumstances for the marketing of wool or any other commodity with an international market. The oil crisis and the monetary policies of the world's leading trading nations have caused inflation rates to soar to unprecedented levels and this has made it necessary for the Governments of these nations to take action affecting the price of commodities such as wool.

When circumstances permit, these Governments have relaxed controls, thus allowing the volume of trade, and the demand, and therefore the price of raw materials, to rise or fall. In these circumstances it is very difficult for traders and manufacturers to predict the trend of price movements. It is generally anticipated

that the monetary policies which bring about these fluctuations in the economies of the major trading nations will continue, though perhaps not as violently as we have seen in the last five or six years.

From the New Zealand wool grower's point of view, all this has resulted in his receiving a wide range of prices over the last few years. In several of those years the prices obtained have, for a vast majority of growers, simply not been economic. It has therefore been necessary for the Government to recognise this and as we all know various schemes have been employed to restore the farmers' economic position. This has meant loans or grants of one kind or another being made available.

The wool grower should not lose sight of the fact that the source of this money is the Government, or more accurately, the taxpayer. The wool grower no doubt hopes that the trigger price system now operating will obviate any further requirement for Government assistance. The fact remains that there can be no certainty of this, and in the present economic climate one would be naive to believe that the wool price will never again dip to a level where Government assistance to the grower became necessary. I believe that it must be accepted by the wool growing community that the price obtained for wool is a matter of national importance and therefore of concern to any Government. It therefore follows that the marketing of wool in this country at least is a matter of very considerable importance to the nation as a whole and not just to the wool growing community.

It is also my view that there is far too large a sector of this community that believes the marketing of wool is a matter for the grower only and these people resent the intrusion of any outside influences in this field, including the Government. I believe that in the eighties a much less selfish attitude will have to manifest itself among wool growers who, whether they like it or not, must come to see their position as being part of this country's total economic community.

It is a mistake for any one sector of this community to believe that it is entitled to a different set of rules for fighting its economic battles.

## 2. Wool Marketing requires Marketing Experts

The survival of the wool growing community is a matter of national necessity. The day may well come again when the grower has to fall back on his Government to act as banker in a period of financial difficulty. In my opinion, it is surely not too great a price to pay for this backing to acknowledge that the Government is entitled to a say in the marketing of this country's wool. This of course must not mean a transfer of control but simply recognition that not only the interests of the grower are at stake. One would always expect that the interests of the grower would remain paramount.

I think that whether the grower likes it or not, he will by 1980, be in partnership with the Government in the marketing of New Zealand wool and the sooner this fact is accepted the easier it will become to sort out the problems facing this aspect of wool growing. Wool growers and farmers generally are not able to fully appreciate the different expertise required in the fields of manufacturing or production to that of marketing.

The New Zealand farmer is a most efficient producer of meat and wool but he is very much a fiercely independent individual. I think it is because of his independence that he thinks he has a divine right to control the course his produce takes across the world to its final destination. But the farmer cannot expect to have his cake and eat it, and as he does receive Government assistance in many forms he should therefore concentrate his knowledge and efforts on production and leave the marketing to those experienced and trained in this field.



While acknowledging the necessity for farmer representation on matters relating to the marketing of his produce, he is nevertheless represented through Federated Farmers, the Electoral College and various Producer Boards, all of which have seldom ever been able to reach agreement on a common approach to Government on matters relating to the farmer's well-being.

Further to this proliferation of representation, the farmer involvement on the Producer Boards leads him into the field of marketing. This is a specialised field requiring more than a farmer can offer by tripping around the world in the guise of a marketer.

I think part of the problem lies in the fact that there are too many local branches of Federated Farmers, with most only achieving a ten to fifteen per cent attendance rate. The Provincial Branches have to contend with a multitude of remits, sometimes at cross purposes, from the local branches - a time consuming procedure. The situation could be improved by having fewer local branches, obtaining informed speakers, with better attendances and fewer remits.

### 3. Amalgamation of Producer Organisations

I feel Federated Farmers could close its ranks, dispose of the Meat, Wool and Dairy Boards as such and use the meat, wool and dairy sections of Federated Farmers in their place. The Producer Boards could then give way to a Dairy Marketing Corporation, a Meat Industry Corporation, and the Wool Marketing Corporation. Government would then be dealing with one body instead of five and Federated Farmers must surely be a stronger organisation to be reckoned with, providing they retain the major voice in the Wool Marketing Corporation policy.

I am concerned at some aspects of the way the Wool Marketing Corporation is developing, and how this emerging "giant" (on New Zealand standards) is going to influence wool marketing in the eighties.

It is now, that a responsible participation by the farming community is so vitally needed.

The composition of the Board of the New Zealand Wool Marketing Corporation must have the best possible people on it to determine its policy and advancement. There must be ample wool grower representatives as well as Government and industry people participating. The Board of any company is charged with the responsibility of determining policy. The implementation of that policy is the function of its staff.

#### 4. Role of the Wool Marketing Corporation

The New Zealand Wool Marketing Corporation has started to grow. Perhaps it is reasonable to say that it is going through its adolescence. It has learned from the mistakes made by the Wool Board in the days of promoting acquisition which was an object lesson on misinformed marketing. While the Wool Marketing Corporation has so far gained a measure of confidence from the grower, I am quite sure it has not yet gained the confidence of the wool broker or the wool buyer, both of whom will be vital in the successful marketing of wool in the eighties.

There is an obvious lack of communication between the Wool Marketing Corporation and the trade, and for the country to benefit from a restructured system of wool marketing the lines of communication must be kept wide open. The changes that are going to take place must be gradual and must not be rushed, and the effects continually monitored. The people who have participated in the selling of our wool for the past fifty or so years must be retained within the system, and therefore consulted and given ample opportunity to discuss developments. This is not so far very evident.

The Wool Marketing Corporation, prior to a sale or during a sale, could consult with the trade instead of trying to catch them off balance as with some specialty wools.

There is no need for the Corporation to use its funds on wool that it has not a market for, especially on a rising market, when by consultation and in confidence with the trade a market can be immediately established. Conversely, if the market looks weak and the Wool Marketing Corporation is afraid of ending up with, say, all the hogget wools, consultation with some of the main buyers would surely help to maintain the level.

It is so important that the presence of the buying trade be maintained. Let us take advantage of their overseas expertise in banking, credit-worthiness of clients, and maintaining access to world markets to keep the product moving rather than squeeze the buyers out of the field. If this should be allowed to happen it would be a calamity for New Zealand.

I have during my period of involvement in Local Government, had a good insight into the workings of Central Government departments. It has horrified me at times to see the power that can be used, and is used by departmental heads. The bureaucratic system that we exist under offers little incentive to the average person involved in it. The overhead cost of running a Government Department is generally far, far greater than any private or public company could stand. I sincerely hope that the Wool Marketing Corporation guards very carefully against becoming another monolithic, bureaucratic heap in Wellington. Under the direction of Mr Hugh Peirse I believe it will not, but he will not be around for ever. It is therefore so important that we appreciate and use the good aspects of our present marketing system; and for goodness sake let us retain them. Let us make the changes gradually and continually monitor the effects of the changes. Let us make certain that we have the best possible people

on the Wool Marketing Corporation Board of control with the best possible staff to administer the policy laid down, and let us forever safeguard ourselves against the establishment of another tier in our present overloaded bureaucratic system.

#### 5. Other aspects of marketing

Along with the changes in the system of selling our wool, we must also accelerate the process of technology in developing grab and core sampling of wool as well as micron and yield testing, because certification of all wools, prior to sale, is going to be the ultimate method of presentation.

There should be more opportunities for careers within the industry. The grower must be better educated especially in methods of preparation of his wool clip.

#### 6. Conclusion

When these goals have been largely achieved, I can see no need to have more than one wool selling centre for the whole of New Zealand with all wool being sold by certificate and computerised on a regular selling pattern, the Wool Marketing Corporation being used as a buffer on price fluctuations, as well as acting as a promotional and international marketing organisation.

In 1985 I can therefore visualise myself sitting in the New Zealand wool exchange building, located in Christchurch. I am watching a sale in progress relayed by a televised computer. My interest is only nominal as I have already been paid for my wool which has been pooled with similar wool from other clips, and is being sold by certification in lots of a minimum of twenty bales.

Type, length, colour, quality, fineness in microns, and yield, have all been specified by objective measurement. The wool is already baled, weighed, and ready for shipment or for local use. At the same time as I am watching the computer data, in countries as diverse as Japan, Germany and U.S.A., buyers are watching an instant relay of the sale's progress.

This can only be achieved by constructive planning by competent and qualified people in their respective fields.

A WAIROA FARMER'S VIEW OF  
WOOL MARKETING IN THE 1980s

by

John Bayly

1. Introduction

I have a natural reluctance to attempt to predict the impossible. So much has been attempted by so many in the past, with disastrous results. However, we must ensure wool has a sound future. For without a satisfactory net return to wool farmers all New Zealanders will be in real trouble.

2. Production aspects

As far as I can see the bulk of the North Island hill country has few acceptable alternatives to sheep, both at the present time and well into the 1980s. What on-farm improvements can be made?

Firstly, I consider easy care, high fertility sheep of primary importance.

Secondly, the need to improve and produce an even, strong, heavy, good quality fleece. A fleece with a good length staple and plenty of character. I see farmers producing the best fleece their country can produce, resulting in a product that is keenly sought after in the market place.

### 3. Reduced handling

I see the need for reduced handling of wool

One method I would like considered is the Australian type clip method of pressing. The New Zealand method takes as long to press a bale as it does to sew it. The positioning of Australian pins or clips take one-third of the sewing time. Presses could be modified for this purpose. The six pins used are re-usable. Advantages of this method include:

Clips avoid twine fibres getting into the wool.

They save handling time in the display of wool.

The front envelope is easily released, thus allowing

8 inches of wool to be displayed.

### 4. Transport and selling

Some revision in the laws governing the transport of wool by road and in competition with the railway are needed. This can result in two additional loadings and unloadings. This results in a serious cost disadvantage to the farmer.

I see the Auction system as still the best yardstick of gauging supply and demand. It acts as a price setter and as a fair means of evaluation. It must remain the basis of all private treaty assessments. In fact it is this principle that is used by the extra choice scheme. Free entry and general open competition must remain the basis of wool disposal until a better method is evolved. Although the extra choice scheme has not been fully developed I see it playing a very useful part. New Zealand sale dates and sale quotas are, I am sure, fixed with the best of intentions to aid the orderly marketing and shipping of wool.

However, it is not unusual for wool shorn on November 10th to arrive at the Wool Store five days later and is accepted for the February 15th sale. Prompt payment is 20 days following sale -

this is made on March 5th. This example could show that a grower has waited 12 months for a full fleece and it may take a further four months to receive payment, for wool deposited at a Brokers' Store. I suggest the Banks, Stock and Station Agents and Growers who have been in the business some years, accept this as a normal situation. Should it be?

I say it is poor business and results in a casual and unacceptable cash flow situation. Perhaps one should in those conditions accept the second choice scheme. I feel modification could be made, enabling either more regular sales or offering wool on hand in the very next sale.

If core sampling results in lower cost and more rapid disposal of wool it will have achieved something. I understand Australian growers receive \$1 per bale discount for opting for this method, which at present accounts for 60 per cent of wool sold.

I hope the New Zealand cutting and grabbing head is different to that used in Australia. I understand B.W.K., the wool and man-made fibre company of Germany, who process wool tops, from 60,000 sheep daily, reported that out of 1500 bales from Australia all were damaged in transit; 145 bales were severely damaged.

The wool in 675 bales was contaminated by fibres from synthetic material. The majority was caused at the source by coring and grab sampling. Most of us believe a change to poly-fibre results in a stronger, cheaper, lighter and cleaner pack. However, when over-stretched or broken, poly-strip yarns split into fibres and cannot be separated from wool. On the other hand jute contamination of wool is repairable.

Could full containerisation be the answer? With the ultimate objective being sale of wool by container. However, are large store lines available for this purpose?



### 5. Stock and Station Agents

What of Stock and Station Agencies? Into the 1980s I still see the role of the bigger National Companies and of the smaller Grower Co-operatives to give independent service, information and finance to the grower remaining as a necessary competitive force in the free marketing system.

### 6. Stockpiling

Large world stock piles of wool undoubtedly have a depressing effect on wool prices. Yet the strength and funding of the Wool Marketing Corporation to buy in and to hold wool, have been major success factors during depressed wool prices. Nevertheless I believe stock piles distort trade. Limited, suitable stock piles placed near to industrial users, that are available at a fair price, could aid orderly processing, in times of shipping or industrial delays and prevent users turning to other fibres.

### 7. Price smoothing

Price smoothing throughout the country may help economic stability and control some inflationary trends and will tend to give self-sufficiency and a degree of price stability to the grower. However, personally, I see the skimmed off excess lying in a frozen account, not receiving interest and therefore depreciating at a rate equal to the rate of inflation.

These skimmed off funds that could be used for development projects and deferred maintenance are just not available for greater export production, without involved and detailed application to the authorities concerned. This siphoned off excess wool money could result in increased borrowing and interest charges in some cases.

Wool growers cannot be expected to absorb the impact of world-wide and internal inflation on their own. The industry and our customers must have the message loud and clear. If you want wool to be produced in New Zealand the grower must have a price that gives him the incentive to produce.

#### 8. Other factors

Many factors are outside our control and seem to affect our wool trade at certain times.

These include: tariffs, overseas political considerations and currency exchange rates and the ever increasing costs of shipping. Freight rates to the U.K. and Europe are up 13.5 per cent this year, following last year's massive 36 per cent.

If conditions are favourable wool production can be increased very rapidly with the short breeding cycle and very early maximum wool production of sheep.

Supply is influenced greatly by prices received, the profitability of wool growing, the immediate and future outlook of sheep farming.

#### 9. Wool Promotion

The demand for wool must be stimulated. So much has been done to promote wool already. Yet I feel so much more can be done. Let us get back to basics and promote wool:

- For insulation
- For health
- For warmth
- For flame resistance
- As a natural product.

Natural fibres like wool and cotton are acknowledged to be growth fibres in the retailing field today. Consumers are swinging to natural fibres and away from synthetic or, as I would like to call them, plastic clothes.

The New Zealand Spinning Mills' capacity has increased by one-third in the last 18 months. Already local mills use 174,000 bales and are the sixth biggest user of New Zealand wools. Increased local manufacture seems a sound and logical step. The processing of our wool to the finished stage adds greatly to its value and in vastly increased overseas funds. The great value in this approach is that the natural fibre is a local resource.

Sensible and logical development of our own industries could ensure a more regular and even demand for our wool.

#### 10. Research and marketing

Our researchers must be provided with the means to develop wool for greater use. I would like to see our researchers finding improved methods to reduce the processing cost of wool.

Our wool marketing people should be encouraged to establish demand for a product. Then influence manufacturers to produce it. For example, it is often stated that children's woollen singlets and babies' woollen clothes are not available.

The basis of marketing should be - give the buyer what he wants. Where he wants it.

#### 11. Consultation with Growers

It must also be remembered that New Zealand growers expect to be informed and consulted about possible changes that may affect them. We have seen the emotion charged issue of

wool acquisition in farmer politics. Farmers, possibly because of their way of life, are by nature independent. They do not like to be regimented. However, at times of depressed wool prices most farmers are more responsive to change.

## 12. Conclusion

Finally I suggest that with high cost of production and little possibility of major cost savings, our returns from wool must increase at a rate greater than the increased cost of production. I suggest wool must be promoted as the ultimate fibre. A fibre that when processed is incomparable as a safe, health giving and naturally grown product. The buying public must be better informed about the qualities of wool and be persuaded there is no true alternative and that they should pay a premium for this product.

## SOME THOUGHTS ON THE MARKETING OF WOOL

IN THE 1980s

by

Bill Carter

1. Introduction

In looking forward to marketing wool in the 1980s I want to hark back to the 1960s. This immediately labels me a conservative and maybe even worse. Three things happened in the early 1960s and were to a great degree interrelated. The ADC targets sparked off a genuine increased production trend, aided by good prices, which also helped fund the new promotional drive of the IWS to establish Woolmark and the quality-performance image for wool.

I would suggest the timing of the Woolmark campaign was critical to the premium position we have for the fibre today. It certainly gained sufficient momentum to carry flagging confidence in the fibre through the depressing years from 1966 to 1971 when the real recovery at last came.

Those of you with better memories will recall the doctrine of despair which produced such remarkable new outlets for wool as the edible wool protein, wall insulation, textured wall paper, cheap felted floor coverings, filter linings and sliver knit coatings for teddy bears. Wool was seen by many to have lost to diminishing demand on all except the better range of styles. The battle of the fibres was approaching an armistice. The subsequent years have demonstrated that the IWS programme could successfully introduce and hold the initiative to wool's longer term benefit.

But it has not been a programme that has as its principle objective the profitable production of wool by the grower. In fact, the whole essence of the IWS Woolmark and technical service programmes has been the placing before the manufacturer the "Unique Selling Proposition" that with wool and IWS support the manufacturer can make more money than with any other fibre. So much consumer demand is created and can be moulded, provided the product pleases and performs.

This identification of the key decision maker and employment of the old-fashioned profit motive, has to some extent benefited from the dual effects of a failure of some competing fibres to perform to expectation and the conservation movement and the world-wide reaction to materialism and a favouring of natural colours, objects and traditional designs and fibres.

Wool and cotton are both in the happy position of seeing consumption exceeding production and having some stocks available to run down. But while cotton production can be increased quickly, the same cannot be said for wool and expectations are for a 1 per cent decline in production this year.

Price is another factor and already cotton prices have settled back from their peak and some manufacturers have been blending with rayon. Polyester staple prices are running at about 70 per cent of cotton, but the wool-acrylic margin is much wider.

It would seem to me that although the man-made fibre producers are not producing anywhere near capacity, and there would appear to be some likely narrowing of the price difference between the natural and synthetic fibres, we are not likely to see a return to the cut-throat situation of the mid-1960s. Rather, I feel we have an unusual marketing position in that our limited ability to increase the supply of wool can be made use of

by its competitors to improve their own profitability. If wool maintains its premier position it is more profitable to work up under that ceiling than to pull the roof down. We may have a new ball game in the marketing of wool.

Certainly, we have seen one major stabilising factor arise and develop in the last 10 years. That is the transfer of the stock holding function from the merchant and primary user to the grower country and allied therewith a soundly based and adequately funded minimum floor price. I have a sneaking suspicion that it is the latter point which has been taken note of by those marketing the competing fibres.

So, looking to the mid 1980s I feel moderately confident that wool can maintain a premier position, albeit a reduced total slice of the textile cake. My one concern is that the IWS programme must continue to be adequately funded, and that its technical and promotional drive is not blunted. I would like to suggest that the present situation may well be analagous to 1963-64 when the Woolmark campaign was launched and prices were above average. Should the growers not be considering an increased effort now to carry through the next textile recession? Is it needed, or do we have sufficient confidence in our ability to maintain the present lead?

## 2. Future wool production

I want to consider now what prospects there are for the next 10 years in the production of wool. This is fundamental to consideration of the marketing issue. Too many people regard the farmer in isolation from the marketing of the product. Unless he makes a profit, and unless wool is more profitable than another crop then discussion of the marketing chain becomes irrelevant.

What prospects are there for increased or maintained wool production? How good are current prices?

Up to this week the wool sales this season have averaged 207 cents, compared with 119 cents to the same date last year. If the present market level is maintained, and taking into account the wider range of wools yet to be offered, there could be a season's average achieved of between 212 and 215 cents.

On this basis one could assume there is the right climate for a swing back to wool production and a recovery of the trend lines towards the ADC targets for livestock, particularly sheep. I believe there is a great deal of renewed confidence in pastoral farming and that increased fertiliser applications and some uncertainty on beef prospects may well engender some short-term encouragement of sheep numbers and per head wool production. But more pertinent to the present price levels are the underlying questions of how long can they last, and how do they relate to the less evident but equally critical rise in on-farm costs.

I am grateful to Neil Taylor of the New Zealand Meat and Wool Boards' Economic Service for the following revised data. Those of you who followed his valuable paper last year on the terms of trade of the sheep farmer will be familiar with the concept of relating prices received at farm gate with prices paid for farm inputs at farm gate. Against the 1965/6 index of 1000, last season's prices received were 1965 and paid 1932, the terms of trade index being 1017. The estimate for 1976/7 is for prices received 2397, paid 2222 (a 15 per cent increase in costs), and the terms of trade 1079.

On this basis if wool prices in 1977/8 held to current levels and made no improvement (and it would be a brave man to forecast any gain) a 10 per cent increase in farm costs would tip the scales below an index of 1000.



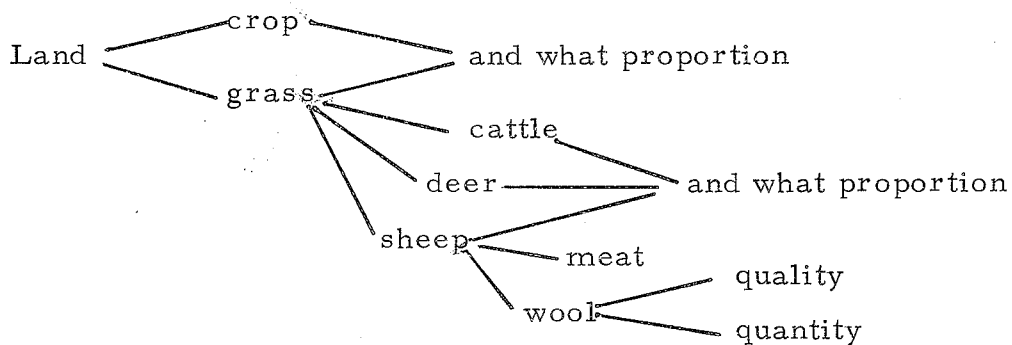
This is what I find alarming in the wool industry today. In spite of the massive improvement in prices for wool (in New Zealand dollars, that is), I do not see any major slice of potential plough-back capital that would give the foundation for substantial long term increases in production.

Of equal concern is the average of the last four seasons and the estimated 212 cents for the current season which is about 138 cents net of selling charges at farm gate. Put this five-year average against the current season's expected level of costs and the terms of trade index will be 900 or 10 per cent below the 1965/6 base year.

I leave it to you to determine whether this reasoning is valid in terms of deciding what production decisions will be made by the sheepfarmer that will increase or maintain the supply of wool to world markets in the 1980s.

If you think I am labouring this point let me assure you that one of the major comments one hears from wool manufacturers is concern at the inflation of costs in the wool producing countries and the effect it must have on farmers continuing to produce wool.

The following speaker is David Haslam, economist turned sheepfarmer. I'd like to know his decision-making process. But I guess it goes something like this.



And on the final choice of wool, does one increase production, or diversify into grazing under the walnut trees, between the rows of peppermint, or on the soya bean and processing crop stubble.

My pick is that in the 1980s the successful farmer will be much more diversified, as means of cushioning the fluctuating fortunes of particular crops or products, rather than too much reliance on income-stabilised monoculture. I still have a great deal of faith in the self-reliance of the independent family farm.

### 3. Wool Marketing Costs

If costs bear heavily on the farmer so too do they affect the servicing sectors from the time the wool leaves the farm gate. At present price levels it is costing about \$24 to shear, prepare and press a bale of wool, and the charges between farm gate and fall of hammer amount to another \$28. Auction to Bradford mill costs are now in the order of \$48 a bale. From sheep's back to mill a total of \$100 for a bale fetching 212 cents a kilogram at auction.

### 4. Rationalisation in wool selling

Over the last 10 years we have seen a considerable merging of woolbroking interests, and the development of competing alternative channels of sale to the auction. Notably, the Co-operative Wool Marketing Association recognised at an early stage the cost-survey route on merchant scouring, a move followed by some private merchant scourers with equal success.

But before postulating any further major rationalising mergers of wool brokers I think there is one point that should

be appreciated. Both Wiri and Gracefield are single floor operations built at a time when building costs were lower. Unless there is some marked shift in the methods of sale, further progress, and economies in amalgamations will probably be constrained by the availability of suitable existing buildings.

It is therefore unlikely, in my view at least, to expect major capital expenditure on new wool broking facilities, if an alternative exists. Thus there should be added incentive for the development of sale by sample and eventually sale by separation where samples are valued and the wool sold at a central point, when the wool itself still lies in the regional facility.

However, it is futile to assume rapid progress in this field unless a number of criteria are satisfied.

- (a) The pre-sale tests must be relevant to the valuation of the types of wool involved. For example, colour, length and soundness are more important characteristics of New Zealand crossbred wools and no tests are yet available. We have a lead time there to produce the tests and gain trade confidence and overseas acceptance.
- (b) The wools must be adequately prepared and the farmer must understand what preparation his wool needs. The wool shed is the cheapest place to prepare wool and in many cases it involves no more than intelligent application of the principles of: "take out what is obviously wrong; and put like with like".  
The experience of the Australians with their objective clip preparation and the belated recognition of the need for grower understanding of those principles should be a warning to us.

Mixed length, mixed fault and mixed quality are the chief handicaps to development of sale by sample.

- (c) To accept a sample the buyer must have confidence in the test data or specifications provided to replace his own assessment of the conventional shown wool. Thus preparation and representation must be guaranteed.
- (d) Most importantly, the system must cost no more and preferably should represent a saving in cost or an added advantage to the buyer that is translated into a better price to the grower.

This area of improvement or change in marketing is independent of how or by whom the wool is sold. In fact, I think we may regard this pre-auction area as one in which there is little disagreement on basic needs. Cost is the overriding factor.

The growth of scouring has introduced some changes and we will see more in the next 10 years. Particularly, I would pick the offering for sale of container lots of standard scoured types ready for shipment. This is a logical development from the present Napier scoured catalogue, the availability and wide use made of condition testing and the growth of the scoured wool exchanges.

The centralisation of wool selling using sale by separation will be forced on the industry by the costs of travelling and accommodation. Too often, the present roster involves small uneconomic sales where there has been a short fall in the offering, and in another part of the country more wool is available than can be offered within the rostered quantity for that centre.

I doubt whether the Corporation's Extra Choice Scheme is going to even achieve sufficient intake to prove significant

in spreading auction offerings, but it may be the beginning of some form of voluntary pooling. This to my way of thinking could prove an acceptable middle ground between the opposition of the grower to acquisition and the need to achieve some more certain spread of offerings than we have seen in recent years. I think it is academic to talk today of acquisition or centralised marketing in the 1980s, unless the grower wants to retreat into stabilisation. What I am interested in promoting is a competitive economic climate in which there is opportunity to do better than average, and I think that is the way most sheepfarmers see the marketing of their meat and wool. The same situation can provide opportunity for those who want to average out whether by Extra Choice or voluntary pooling.

I think there is a general shift back towards private enterprise in primary product marketing. Even our dairy industry, for years the bastion of centralised marketing, is demonstrating the rewards and risks associated with initiative. The smaller co-operative dairy factory has often led the industry in innovation as a means of competing against the bigger adjacent co-operative. There have been plenty of examples of this, and now this enterprise is being taken up by larger companies moving into more risky but potentially more rewarding lines.

I think there is plenty of scope for progress in wool marketing within the bounds of grower and industry acceptance.

##### 5. Wool transport problems

We are all aware of the ridiculous situation whereby the railways state publicly their role as long distance trunk line carriers, but resist the giving up of the right to compel the grower to cart by road 15 miles to the railhead, then 40 miles by rail

and frequently then by road again from the goods shed to the brokers store, whose railway siding is now clogged with outgoing railway waggons for scouring or containers for shipment.

Containerisation of wool is difficult to justify and certainly, given no encouragement but rather discouragement to increasing the number of bales in a container it is one of the areas that require close scrutiny in the coming years. If containerisation of wool at present densities is economic for shippers, then it can only be because the inefficiencies of alternative methods of shipment are greater.

Prior to the quadrupling of oil prices, one of the central features of cellular container ship design was its service speed and thus fewer voyage days. However the difference between 17 and 22 knots may be 50 per cent of oil consumption.

We are in the grips of some frightening cost statistics. The escalation in shipbuilding costs, coupled with the cost of oil at high service speeds, may well return shipments of wool to slower, more economic vessels that effect an uneasy compromise between optimum service and tolerable cost. If one related the likely eventual cost of the New Zealand Shipping Line's one and only container vessel, when it enters service, with its three suits of boxes, to the daily earning rate necessary to service fixed costs, the implications to the freight rate are serious.

Without holding a brief for any shipping line one must recognise the foresight of those cross-trading lines that have started building a vessel that can transport bulk cargoes, containers, pallets and break bulk - in other words, a twentieth century tramp capable of giving liner service. This is not the occasion to dwell on transportation - it is only one aspect of the marketing of wool from New Zealand in the 1980s.

## 6. The role of the Wool Marketing Corporation

One area I have not yet commented on is the role of the Wool Marketing Corporation. Depending on one's viewpoint the Corporation can be likened to the referee, rules committee, player (in both teams) and reporter of the game. To date the Corporation has been outstandingly successful in those areas where it has made sure the rest of the industry knows what it is doing and why. With a few exceptions it has been very successful in avoiding the accusation of bureaucracy.

Frankly, I believe that its greatest contribution to the wellbeing of the wool industry will always be when it acts as the co-ordinator and not the dictator.

## 7. Conclusion

I have quite deliberately refrained from blueprinting the next 10 years of our wool industry. Apart from the stigma attached to false prophets, a seminar such as this probably needs a conservative provocateur. My one thesis is that the industry is interdependent. Change proceeds within the bounds of political acceptability and commercial practicality.

We have seen the wool industry progress from the faith of the early 1960s to the hope of the years 1967 to 1971. Since then I would trust any implications of charity have been quickly dispelled, and the industry is capable of retaining the mastership of its own destiny.

THE VIEW OF A CANTERBURY FARMER  
(AND EX WOOL BOARD EMPLOYEE)  
ON WOOL MARKETING IN THE 1980s

by

David Haslam

1. Introduction

Marketing has undoubtedly been the most discussed aspect of the wool industry in recent years. Unfortunately for the industry, much of the discussion was based on emotion, centred around whether or not the clip should be acquired. The important marketing issues were frequently lost in the debates on the rights of individuals, socialism, Government controls and so on.

However, that is all history. Today we are asked to look forwards not backwards, and I congratulate the organisers of this conference for their theme. I am not sure whether it is wise to open one's mouth on such a subject since one quickly gets classified as a "politician, bureaucrat, or academic". I don't pretend to be any of these, but merely a person who spent a fair slice of my eleven years with the Wool Board working on aspects of wool marketing, and who will depend to a large degree on my livelihood in the 1980s upon how well other people market New Zealand wool.

2. Wool as a Textile Fibre

Before discussing the marketing of wool in the 1980s I would like to spend a few moments examining the present position of wool as a textile fibre. Wool is an industrial raw material -



one of several - used by the world textile industry. In production terms, the volume of wool is small compared to other fibres, as Table 1 indicates.

TABLE 1

<u>World Fibre Production 1975</u>		
	(Mn kgs)	%
Cotton	11,700	50
Synthetic staple	3,612	15
Synthetic filament	3,751	16
Cellulosics	2,965	13
Wool (clean)	1,489	6

Of course not all of the above are "wool-competitive". If cotton and the man-made fibres used in non-wool end-uses are excluded the picture is as in Table 2.

TABLE 2

<u>Wool Competitive End-Uses</u>	
Wool	23 per cent
Synthetics	70 per cent
Cellulosics	7 per cent

Clearly, while wool is an important raw material for the world's wool textile industry, nevertheless it occupies a minority share of that market.

The major textile consumers of the world are the so-called eight main consuming countries. They are the United States, United Kingdom, France, Germany, Holland, Belgium, Italy and Japan. If we look at the use of wool as a textile raw material compared with man-made fibres, in those markets, in the wool using portion of their industries, i. e., excluding non-wool type uses,

we find that the upward trend of synthetics is spectacular and consistent, while wool consumption has fluctuated about a declining trend.

So wool has declined in the eight wealthy, textile using, and traditionally wool consuming countries of the Western World, over the last few years. I think it worthwhile to spend a few moments looking at what might be the reasons for this decline and I would like to make reference specifically to the United States market.

### 3. The U.S.A. Market

The U.S.A., with its population of over 200 million people, is the largest consumer of textiles in the world. In the immediate post-war period up to 1950 they consumed 270 million kilos of clean wool fibre per annum - or more than the current New Zealand wool clip. By 1970 that figure had dropped to just over 100 million kilos clean - less than half our wool clip, but still in that year New Zealand exported to the U.S.A. about 215,000 bales or over 10 per cent of our exports. Since then the decline has continued - last season the U.S.A. took a mere 57,000 bales of our wool or about 3 per cent of our exports. This decline has occurred when man-made fibre use in tufted carpets alone has increased by over 50 per cent between 1970 and 1975.

To find the reasons for this decline I think we have to look at the American manufacturer. In 1964 the United States Carpet Wool Council told the then Chairman of the Wool Board, Sir John Acland, that if New Zealand did not find a method of containing the price fluctuations of New Zealand carpet wools, the American industry would be forced to move out of wool as a carpet fibre. Those remarks led to a prolonged and thorough series of marketing studies conducted by the Wool Board. Unfortunately these examinations did not

culminate in action in the U.S.A. and meanwhile the use of wool in that market has declined to the point of virtual elimination. The Board and Corporation are now faced with the most difficult task of trying to regain the lost market, which I suggest is more difficult than holding a position in the market.

Well, can this loss be attributed to the fluctuating prices which have characterised the raw wool market? One of the marketing studies conducted for the Wool Board by the Battelle Memorial Institute researched very thoroughly the U.S.A. carpet situation. Battelle suggested that there were a number of factors associated with the way in which raw wool was marketed to the American manufacturer which placed wool at a severe disadvantage compared with its competitors. Battelle said that in comparison with synthetic wool has:

(a) Price

Greater price fluctuation due to both changes in demand for the raw material; and changes in exchange rates. Whilst synthetic prices are not rigid they do not exhibit the rapid violent changes which characterise wool.

Wool prices are generally higher than synthetics, but in my view the level of price is of much less significance than the degree of change.

(b) Finance

Poorer financial arrangements for the manufacturer both in terms of financial credit, and volume discounts. In my view this largely reflects the difference in size between synthetic fibre firms and the raw wool distributors.

(c) Delivery

Slower and less certain delivery. Synthetic delivery can be as short as hours - wool can take as long as nine months.

And because of the seasonal nature of wool production, stocks must be held to achieve a twelve months availability, adding to the cost of using wool as a raw material.

(d) Specification

Wool is less reliable and less accurately specified than synthetics which, because of the way they are manufactured, can be specified exactly.

(e) Processing Efficiency

More wool is required to make a carpet of the same density as a synthetic because of wool's lower bulking quality. Slower machine speeds are achievable, because of wool's lower yarn strength. Both of these add to the comparative cost of wool processing.

What weight you give to all or any of these factors becomes a matter of judgement. But one thing that is certain is that the richest country in the world and the largest textile consumer market in the world has moved substantially out of wool as a textile fibre. All the evidence suggests that demand for wool products exists in the consumer market in the U.S.A., but that manufacturers simply are not prepared to use wool on their machines.

So the U.S.A. has been lost - does that matter? I believe it does matter because, apart from the loss of the competition from that market, there are signs that the same thing is happening in Western Europe - as evidenced by the graph of wool consumption in the textile industry of these countries. And on that gloomy note I think it is now time to look at the real subject of this talk - the marketing of wool in the 1980s.

#### 4. The Marketing of Wool in the 1980s

Before giving you my views on how I think wool ought to be marketed in the 1980s, I think it is necessary to make some assumptions about the marketing scene which will exist in that period. Obviously a fairly wide range of possibilities exists but for the purposes of this discussion I have chosen these:

- (i) Synthetic fibre competition will be more severe than ever before. Production will increase at a rate faster than expansion in consumer demand, especially because of plant installations in developing countries, and in Eastern Europe.
- (ii) The declining trend in consumption of wool in Western Europe will continue especially in the United Kingdom and Italy, but also in other EEC countries. This will occur both because of firm closures, and because of synthetic fibre substitution, and despite such fashion swings as "the return to natural fibres".
- (iii) The costs of marketing wool will continue to rise, especially in the case of ocean freights which will mean that wool will find it increasingly difficult to compete with synthetics on a price basis.

This is a somewhat gloomy outlook but I can't see any sound basis for assuming otherwise. So what should we do? If we were directors of a commercial firm producing and marketing wool, I suggest that we would look to alternative products with a somewhat brighter future. But we are not in that position - we are all to some degree dependent as individuals on the profitable sale of wool for our livelihoods; and from a national point of view wool makes a significant and much-needed contribution to the economy. So to me it makes commonsense, and indeed it is vital, that we should gain the maximum price for our products in world markets, through the most effective marketing possible.

How then do I see wool marketing in the 1980s, the way it ought to be? Let me say at the outset that I am convinced that to continue with the system as we now have it, for the marketing of raw wool from farm to mill, is to invite synthetics to push us out of more markets. This means that all of the groups involved in the marketing of wool, be they growers, brokers, buyers, transport operators or whatever, must accept change if wool is to remain a commercially viable fibre.

The sorts of change I see as being necessary for wool marketing in the 1980s are these. Firstly, we must attempt to present our wool to the manufacturer - our customer - in the form that he wants it. If he wants a stable-priced product; or a more uniform and reliable product, then we must seek to provide this, if we want to retain that customer. Up until now our attitude has been this: "Our wool is a very good product and it is freely available at auction, so come with your order book and bid for it". We know that at least some manufacturers today simply will not do that. Therefore unless we are prepared to toss away their custom, we must meet their requirements.

The requirements of manufacturers will be different in different markets and end-uses. The Japanese may well prefer the present situation of auction buying. The Americans we know do not. But if we want to provide the range of services that the U.S.A. regards as necessary - stable price, financial incentives and so on - then for those clients we must change parts of that marketing system. In my view, you cannot expect the raw wool buying houses who are experts in trading - that is buying and selling, and in financing, to turn around and provide the range of services required to move wool on to the U.S.A. market in significant volumes. They simply do not have the financial size required and are not organised that way. After all let's remember that among our

competitors in the U.S. A., Du Pont has a fibre sales division with a budget approaching that of New Zealand's export income from agriculture; while a smaller firm, Monsanto, has fibre sales which exceed New Zealand's total export income from wool.

So how should these services be organised? To provide the range apparently required in the U.S. A., especially that of a fixed price, the only way I see is through the Wool Marketing Corporation marketing directly to the manufacturer. A very different set-up could well be appropriate for marketing in say Holland or Germany. Wherever practicable the skills and knowledge of the international merchants should be used, as should the skills and knowledge of the I. W. S.

The most difficult problem is not in organising the most effective marketing structure suited to each market, but how to obtain the wool. For example, if the U.S. A. requires a stable-priced commodity for us to gain any ground there, it appears to me we have only two alternatives. Either we have an acquisition type arrangement, i. e. some form of monopoly trading for all wool going to that market; or we ask the Corporation to punt in the marketplace in order to gain supplies to sell at a fixed price. The first solution is more simple, but unacceptable to a majority of growers. The latter solution, while probably more acceptable, places at risk the capital resources of the Corporation, but if that is the price to pay for action, then I suggest we pay that price.

In summary, my first suggestion calls for a careful review, market by market, and end-use by use, in terms of where we are now, and where we look to be heading. This should be undertaken by the Board and Corporation in conjunction with I. W. S. who already have much of the basic information.

The results of this analysis should then be examined with New Zealand's wool exporters so that an industry consensus can be

reached. Only when this has been obtained can an effective marketing strategy for each market be worked out. I think this will mean that we will need to depart from the single system we have of sale by the farmer to the buyer for sale to the mill. For some markets and some end-uses, direct involvement by the Wool Marketing Corporation in the sale of wool overseas will be necessary. Further, the Corporation may have to assist the activities of some New Zealand exporters.

The second sort of change I see as necessary is the integration of this marketing activity with the operations of the I. W. S. In the I. W. S. growers have a potent and sizeable marketing operation - but its effect is limited because the I. W. S. does not tie its activities directly to the sale of raw fibre. I believe the I. W. S. would be much more effective if its technical service and product promotion were co-ordinated with the selling operations I have suggested be undertaken by the Corporation and New Zealand's raw wool exporters. To me, it is much more effective to be able to say to a manufacturer - we will deliver you these quantities of these guaranteed New Zealand wool types, at these prices fixed for the next twelve months and I. W. S. will spend \$X,000 dollars on the promotion of your articles with retailers.

Let me make it quite clear that I am not suggesting I. W. S. becomes responsible for the sale of raw wool - indeed I believe they should not, but I see considerable advantage in dovetailing raw wool marketing with I. W. S. promotion. There is nothing new in this idea and it has been discussed by the I. W. S. Board on many occasions, but it follows logically I think from my first suggestion.

My final area of change concerns cost savings. At the outset I want to say that while it makes sense for us to contain the costs of marketing, and to seek more efficient ways of moving the fibre from farm to mill, in no way do I see this as a substitute for



direct activity in marketing overseas. I think that in New Zealand we can become preoccupied with, say, selling-by-sample, and forget the situation facing us in the U.S.A. What I am really saying is that shifts in demand for wool can make differences of tens of cents per kilogram to the raw wool price, while it is simply not possible to save costs of this magnitude. Hence I put cost savings third on my list of priorities.

Having said that, I believe we should seek to make savings wherever possible in marketing costs. In 1964 I estimated the cost of marketing wool at about \$26.00 per bale. Last season the Corporation estimated this at \$58.00 per bale and this season it will be well over \$60.00. By far the most significant marketing cost is ocean freights, representing nearly one-half of the total costs last season, or roughly \$28.00 per bale. And it should be noted that ocean freights have more than doubled in the last four years. So far efforts to persuade the Shipping Companies to base their charges on volume rather than weight have failed, and so there is no incentive for pressing wool to higher densities to save space. Hence at the moment anyway, the saving in costs in this most significant area is not very promising. By the 1980s ocean freights could cost \$50.00 per bale - so it is obviously urgent that more pressure be put on the Shipping Lines to agree to provide a differential rate for dense pressing.

Sale-by-sample and its successor sale-by-description, offer the most obvious way of saving brokers' and auction buyers' costs. Until now the uptake of sale-by-sample in New Zealand has been extremely slow but I understand that it is now gaining momentum. Hopefully by the 1980s the traditional show stack will be a thing of the past. Once sampling and measurement systems are proven and acceptable the door is open for quite radical changes such as sale-by-separation, and indeed different forms of packaging and

road transport. The real question is to decide who reaps the benefit of cost savings. I believe all parties concerned should benefit, which in the case of sale-by-sample means the grower, the broker and the buyer.

Recently the Chairman of the Electoral Committee called for a composite industry committee to discuss problems and communicate with one another. I see point to such a council but I would charge it with the responsibility of monitoring increases in wool marketing costs and of determining ways these can be contained or reduced.

#### 5. Conclusion

In this paper I have attempted to say this:

- (a) We face a declining demand for our product in the world textile markets.
- (b) Synthetic fibres have been responsible for this.
- (c) Each market and each end-use should be surveyed now to determine the appropriate marketing method required.
- (d) We will need to change our marketing methods in some markets and in some end-uses, if this trend is to be arrested.
- (e) Better use should be made of the I. W. S. by integrating its promotion activities with the sale of the raw fibre.
- (f) An industry marketing costs committee should be formed to pinpoint and promote ways of saving the costs of moving wool from farm to mill.

Those of you who support wool acquisition may be disappointed I have not come out and said we need acquisition to save our souls. To those people I would say that my proposals may well end up with acquisition, but I don't see this as the real issue. The real issue is what is happening in our markets. To those of you who support adherence to the status quo, with preservation of the free and open auction at all costs, you must ask yourself this - if the U.S.A. and the U.K. and Italy and Belgium, France, Holland and Germany are not going to buy our wool in the 1980s, just who is? Can you see us selling 2 million bales to Japan, Australia and Eastern Europe? Because that to my mind is the real question and I do not see stubborn adherence to an historical system of marketing as in any way being an effective foil to the superior marketing abilities of synthetic fibre firms.

WOOL MARKETING : THE AUSTRALIAN EXPERIENCE

by

Dr Lionel Ward

1. Introduction

In many respects Australia's experience in wool marketing has closely paralleled that of New Zealand. Consider the following similarities:

- (a) A statutory Authority established post-war to carry out product marketing.
- (b) Joint action to establish the I. W. S.
- (c) Strong disagreement within woolgrower ranks on the extension of marketing powers.
- (d) Introduction of a reserve price scheme.
- (e) Government reluctance to introduce full acquisition.
- (f) First forays into direct marketing of wool to overseas customers.

The main differences between the two countries lie, first, in the nature of the wool produced and second, in the relative size of the world export market each country commands - although even that difference is less apparent when market share is measured in terms of those wools for which each country is best known.

In my address today, therefore, I will not attempt to draw on the Australian experience to provide lessons for New Zealand; rather, I wish to assess the Australian Wool Corporation (A. W. C.) experiences of recent years as a guide to the direction of wool

marketing preferred for Australia in future years. In particular, I will explain the Corporation's broad philosophy to wool marketing and how our experiences in wool marketing have helped shape our present marketing strategies and proposals.

## 2. The A.W.C. Philosophy

The approach of the A.W.C. to wool marketing is most strongly influenced by one basic premise: wool is an industrial raw material, the marketing of which should be based on the same principles as those applying to the marketing of any other industrial raw material.

The concept simply implies that it is inappropriate for producers of wool to adopt a laissez faire attitude and assume that the operations of the free market are in the best interests of the woolgrowing industry. The relevant issues are that:

- (a) Left to the devices of the free market, wool is traded as a commodity in which the main objective is to maximise gains to the traders and not to the woolgrowers or the wool users.
- (b) From (a) it follows that there may exist in the wool market a strong speculative element in which the immediate needs of the textile industry are not taken into account.
- (c) It is possible to improve the demand for wool by making its use as a raw material a less risky enterprise.
- (d) Wool's major competitor in the fibre market offers a more stable structure on which to plan fibre use.

This approach to wool marketing does not imply that it is possible to ignore the fact that wool is a commodity produced from rural resources. It simply means that marketing strategies should

be adopted which mitigate the adverse effects created by the characteristics of the supply base. The A.W.C. also believes that the only way to successfully implement those strategies is through a marketing organisation granted sufficient powers to act on behalf of, and for the benefit of, all woolgrowers.

The next step is to assess the major strategies involved to consider whether further innovations in marketing such as the reserve price scheme, non-reserve price trading, intervention in wool handling, and integrated marketing, are justified.

### 3. The Reserve Price Scheme

The scheme comprises three component strategies each of which cannot be evaluated in isolation. These are reserve price purchases, stock holding, and sale of reserve price stocks.

There are four main issues to consider in evaluating the reserve price scheme:

- (a) The impact on price variability.
- (b) The effect on supply assurance.
- (c) The net cost/benefits to woolgrowers.
- (d) The implications for commercial interests.

Consider each of these in turn.

(a) Price Variability: Reserve price operations in Australia include both a minimum reserve (floor price) and a flexible reserve system. The operation of a flexible reserve has slight implications for short-term price variability:

- (i) On a day-to-day basis it reduces the availability of isolated, unusually low-priced lots at auction.

- (ii) On a stable or rising market it can reduce the amplitude of short-term fluctuations which typify the wool market.
- (iii) In a declining market any resistance by way of a flexible reserve could aggravate a market decline.

Clearly most attention focuses on the floor price operations. A statistical analysis of wool prices since their introduction in Australia in 1970 would show a period of high price variability, but such an analysis would need to be seen in the context of the world wide economic conditions and market behaviour that provoked those price variations. A more careful evaluation would suggest:

First, there is a limit to the extent that Australia (plus New Zealand and South Africa) can place a floor in the world wool market. Nevertheless, the policy has significantly reduced down-side fluctuations.

Second, if the floor prices are too low, there occurs excessive substitution into wool and the market recovery may be too strong, particularly if favoured by fashion (e.g., cardings and woollens).

Third, there occurs substitution between wool types which can be aggravated by incorrect differentials between categories.

Fourth, floor prices must be held to generate confidence, but even then uncertainty can arise when changes are foreshadowed (between seasons) or a currency change is believed imminent.

The evidence suggests that the users of wool, and definitely the growers of wool, approve the improved stability generated by the floor price operations, but there is a realisation of the limits within which disposals from stock can contain damaging rapidly

rising prices. For this reason the Corporation believes that it would be in the long-term interest of wool for the A. W. C. to possess powers by which to impose a ceiling on a run-away market.

(b) Supply Assurance: From wool purchased under the reserve price scheme the A. W. C. has sought to improve the availability of wool to users by:

- (i) Preparing wool ready for sale in large lots tailored to trade requirements.
- (ii) Locating stocks closer to the point of consumption.
- (iii) Supplementing depleted auction catalogues.
- (iv) Selling privately in buoyant markets.

Again, industry reaction (particularly at more advanced stage) suggests the benefits are significant. Nevertheless, there are important qualifications:

The inventory is compiled by default and not by careful planning, hence the full potential of an inventory is difficult to realise.

The stocks comprise wool which would otherwise have gone into commercial hands and hence to some extent the overseas location of stocks and ready availability of supplementary supplies meet a need that would have been supplied by commercial operators in the absence of a reserve price scheme.

From a longer-term point of view, merchants do not take the existence of reserve price stocks into account in formulating their own stocking policies since A. W. C. stocks cannot be controlled and because disposal policies from those stocks vary according to market conditions.



(c) Costs/Benefits to Woolgrowers: It is a simple accounting mechanism to determine whether the total operation yields for its operator a profit or a loss, but that is not the major issue.

More important are:

- (i) The net outcome of gains to growers from higher prices when the reserve price operates, and losses when the wool is sold from stock and hence dampens the market price.
- (ii) The subjective benefits due to increased demand for wool as a result of a more stable market and increased supply due to a more stable income to growers.

The outcome of the first is determined by relative elasticities of demand when the wool is bought and sold. No one can measure elasticities with any degree of confidence, but observations of market behaviour suggest gains outweigh losses.

The outcome of the second is also a matter for conjecture. The view held by the Corporation is that the benefits to users and growers alike would be significantly enhanced if the A.W.C. was in a position to regulate its inventory, provide more supply assurance and have a greater influence on escalating prices. The A.W.C.'s export acquisition scheme presented to the Australian government in January, 1974, would provide these.

One final point on costs and benefits; the major cost incurred by the A.W.C. is the cost of finance borrowed at  $11\frac{1}{2}$  per cent, principally from the government. The A.W.C. is not seeking subsidised loans (although we envy New Zealand), but it has sought, without success, approval to borrow at more competitive rates.

(d) Implications for commercial interests: The fibre choice decision is made principally at the fabric and garment stages and it is on these manufacturers that the reserve price scheme seeks to impose its greatest influence. For the merchants, topmakers and combers, however, the effects of reserve price operations are less favourable. This is principally because wool bought by the A. W. C. is not being traded and processed. Since it is more difficult to substitute into other fibres, turnover and machinery utilisation declines sharply, creating cash flow problems and raising per unit processing costs.

Much of the lost ground is regained when stocks are sold, but it is then possible to encounter capacity shortage (e.g., combing capacity in Europe this year). In addition, for trading and converting wool, the operation of reserve prices reduces the profit potential from buying low-priced wools into stock.

#### 4. Non-Reserve Price Trading

It was noted above that a serious shortcoming in the reserve price scheme is the lack of control the A. W. C. can exert over the size and composition of its inventory and consequently on its ability to sell forward wool that is not contained within stocks.

The A. W. C. has the legislative power to purchase wool outside the reserve price scheme, but use of this power is subject to approval by the Minister for Primary Industry. At the present moment a completely satisfactory means of buying wool to supplement reserve price stocks has not been devised. The principal problems have been:

- (i) To avoid confusion at auctions between A. W. C. reserve price operations and its open trading operations.

- (ii) Establishing a system for buying wool direct from growers which is low-cost and does not duplicate existing resources.
- (iii) A lack of early initiative due to an expectation that the marketing proposals could be implemented (as well as having plenty of wool available from reserve price operations).

Various alternative proposals are under consideration since the A.W.C. sees the need to establish alternative sources of supply pending some decision on its marketing recommendations. It remains convinced, however, that the marketing proposals provide the preferred approach.

#### 5. Wool Handling

A major plank of the A.W.C.'s marketing proposals is that export control of most of the clip would provide considerable opportunities to achieve cost reductions in wool handling. The Corporation still holds that point of view; in fact, events since release of the report in early 1974 strengthen the Corporation's point of view:

- (i) The widespread acceptance of objective measurement which is now a reality was an important pre-requisite to those gains being achieved.
- (ii) Rapidly rising labour costs increase the urgency of reducing handling costs and this is achievable by sampling and testing wool at the point of receipt into stock and then delivery when required direct to bulk store or dump.
- (iii) The diversity of wool buying channels has increased in the past two years, raising the complexity of the system and reducing the sphere of A.W.C. influence.

The current state of play in Australia is that the wool-selling brokers seem unsure of their role under the A. W. C. proposals, and have opposed them for reasons of apparent self-preservation. Herein lies an important misrepresentation, or, at least, misunderstanding, of the Corporation's position. It has always been the A. W. C.'s intention to preserve the role of the commercial sector in handling wool from farm gate to shipside. Indeed, it was hoped to increase the competitive element within this sector and this could be one cause of the opposition to the A. W. C.'s proposals.

#### 6. Integrated Marketing

An important step taken by the A. W. C. in the past eighteen months has been to establish an office in the United States through which wool is being traded direct to mills. The move was prompted by the startling drop in wool consumption in the United States over the past decade and the realisation that current marketing methods for wool are no longer appropriate for that country.

The concept envisaged the A. W. C. "integrating" its selling functions with I. W. S. product marketing functions. The plan outlined was not very different to that envisaged in the A. W. C.'s marketing proposals: select the more influential users of wool involved in product marketing programs and provide an added incentive to use wool by reducing the risk associated with its purchase. It should then arise that if those firms enjoy a profitable venture they are more likely to remain committed to wool through changing marketing conditions, and induce less influential firms to follow their lead.

The degree of integration achieved so far has been less than anticipated. Nevertheless, the A. W. C. has been able to introduce a significant degree of stability into the market for Australian wool and after early hesitance on behalf of the U.S. textile industry (from combing onwards), the A. W. C.'s operations are now widely accepted and appreciated.

The result is seen partly in the rise in Australian exports of greasy wool to the U.S. from 18,000 bales in 1974/75 to 83,000 bales in 1975/76 (the increase in scoured wool imports for the woollen system was just as marked). Much of this increase can be attributed to a favourable fashion shift, but the A. W. C.'s operations are believed to have enhanced the move to increased wool consumption in the worsted system.

From its experience in the United States the A. W. C. is convinced that when market conditions demand, a more direct marketing approach is warranted, but it also believes that such action should preserve the more efficient elements of the existing distribution system.

## 7. Conclusion

On several counts the Corporation believes that its marketing recommendations released in January 1974 remain the most appropriate for the Australian wool industry. In particular they would:

- (i) Enhance the benefits arising from the floor price operations by permitting the establishment of a more balanced inventory and enabling the Corporation to more strongly influence prices in an excessively strong market.

- (ii) Provide a wider trading base from which to enter into forward commitments as a policy aimed directly at creating a more stable market.
- (iii) Facilitate improved handling methods for wool by streamlining receivals and storage, and encouraging innovation and competition.
- (iv) Strengthen the Corporation's influence on what is becoming an increasingly diverse market.

AN ACADEMIC'S VIEW OF

WOOL MARKETING IN THE 1980s

by

Professor Owen McCarthy

1. Introduction

Being a simple minded academic I am real impressed by the array of talent who have preceded me - in fact I have picked up a few hints along the way. I always think that anyone who cannot benefit by humbly listening to and attempting to evaluate and appreciate the opposition's case either suffers from chronic deafness, constipation, or considers he is a close relative to the omnipotent gent somewhere up above.

When asked to undertake this assignment I thought the best way to proceed would be as follows:

- (a) Find out how this fibre called wool was currently being marketed and how the fibres competitive to wool went about the process.
- (b) Dust off a few of my old marketing text books and see what they had to say about the principles of marketing - whether it be cabbage, contraceptives, calves or cathedrals.
- (c) Attempt to apply some of my theoretical concepts to the marketing of wool.

And that's how I propose to proceed in what I have to say to you.

## 2. The Current Situation

I find that wool is a comparatively minor and unreliable element in the world textile fibre market.

Minor in the sense that of total world textile fibre production last year (1975)

Wool made up	6%
Cotton	52%
Man made fibres	42%

Compare this with 10 years ago when

Wool	8%
Cotton	63%
Man made fibres	29%

or 5 years ago

Wool	7%
Cotton	55%
Man made fibres	38%

Not only is it unimportant but its unimportance is growing. In the last 10 years it has slipped from 8% to a 6% market share while man made fibres have boosted from 29% to 42%.

More critical is its price unreliability. One year you have to mortgage your mother-in-law to buy a few kilograms, the next year it's given away as a free gift with your daughter's Weetbix or Cornflakes. Imagine trying to figure out a stable price for your end product when faced with such problems. If you buy a competitive man-made fibre you have none of these complications.

For example, consider the price of New Zealand greasy wool at auction over the last 10 years.



It started at 65 cents/kilo (1966/67), dropped to 50 the next year (a 25% change), rose again in 1972/73 to 144 cents (a 120% change from the previous year), fell to 92 cents in 1974/75 (a 35% drop from the previous year) and rose in 1975/76 to 157 cents (a 60% increase).

Or a 141% variation over the 10 years.

Compared with

Cotton 88%

or

Acrylic fibres (stapled)

Japan 19%

France 17%

Apart from relative unimportance and relative price unreliability I find that wool has performance characteristics compared with other fibres which sometimes put it ahead but mostly put it behind.

For example, as far as fibre properties are concerned it is ahead in utility but behind in processing ability (utility : absorbs water without getting wet).

When it comes to product specification wool just isn't in the race. Visual measurement is by reputed experts who are influenced by such factors as mother-in-law trouble, hangovers, wins at the races and car trouble. Compare this with objective specification and precise measurement for synthetics.

Wool just cannot guarantee a repeatable product over time.

Then of course we have the Alice in Wonderland marketing channel system with peaks and troughs in availability to mills, everyone with a finger in the selling pie, many organisations of varying merit and competence competing in research and promotion.

You might be tempted to say, well, if everything is as disastrous as you say how come the average auction price last season (1975/76) at 157 cents per kilo was the highest ever, except for the Korean boom 1950/51 of 161 cents.

And I would reply

High compared with what?

Let's take man-made fibres over the same period.

Rayon yarn rose from 46 pence<sup>1</sup> to 115 pence and rayon fibre from 7 pence to 50 pence. Acrylic staple started at 68 pence and today is 96 pence.

And what about the price of other commodities?

Coal was \$12 per ton in 1950 and is now \$52.

A packet of cigarettes was 20 cents and is now around 58 cents.

A leg of mutton was 80 cents.

And so on.

So I end up by deciding that wool doesn't come out all that favourably, or as one of my daughters says "It's not all easy clean Mr Sheen".

But, as a marketing expert, I know it can be presented better so I'm not too depressed at this stage.

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<sup>1</sup> U.K. new pence per kilo.

### 3. Marketing Principles

The next step is to dig into my dusty books and see if I can uncover a few commonsense marketing rules. First of all there is the necessity to be perfectly clear concerning what marketing is all about.

It is the satisfaction of needs and wants of consumers at a profit.

So you don't insist on producing what you think is best for the consumer and shoving it down his throat, firmly convinced that it's the best in the world and why shouldn't he be pleased to buy it? There are of course classic cases of this approach - early lamb marketing in the U.S. and Japan perhaps the best examples.

The marketing approach is, you ask the consumer what he wants and needs and you give it to him. Of course you try and kid him round about the superiority of your product but meantime you satisfy his wishes. And you check what your competitors are doing - working on the philosophy that if you can't beat 'em at least you can flog off their best ideas.

Now, and here is the key issue. The more satisfied the consumer is with your efforts the higher the price he is willing to pay. The less satisfied the lower the price.

Right, you're in the marketing game, the focus is on the consumer and what your competitors are doing for him and you're out to make a profit. Regardless of what you are marketing, be it wool, windows, waistcoats, or widows, your strategy consists of four steps.

Assess the market

Organise yourself for marketing

Plan your market programme

Evaluate your past efforts

Assessment

means collecting information about the consumers, finding out what your competitors are doing, guessing about future possibilities.

Organisation

means structuring the marketing system to best effect so that the component parts work together to best advantage and with a minimum of dead wood, overlap and ponderosity.

Planning

revolves around product design and presentation, pricing strategy, distribution decisions and research, advertising and promotion decisions.

Evaluation

means seeking independent assessment of your market performance and being adult enough to accept criticism. Not bleating about like a lot of cull-for-age ewes, noses in the air and stiff legged with pride in past performance.

How we come to the rather delicate question of how New Zealand wool marketing has measured up to these criteria in the past. Frankly we have been

weak on assessment

preoccupied with over-organisation

disastrous on planning

and touchy on evaluation.

#### 4. Marketing strategies

What does the future hold?

I firmly believe that we need a wool marketing system which will

- (a) Provide users with wool of a specified and repeatable type at the required place and time, uniformly packaged and at a stable price.
- (b) Ensure a favourable production environment for wool growers by stabilising prices.
- (c) Increase the efficiency of the wool handling, selling and distribution system so that associated costs are as low as possible.
- (d) Ensure an improved information flow between user and producer.
- (e) Undertake further market development.

What I am saying is that we need to sharpen up in assessment.

I think we're stuck with over-organisation, too much of the 'old boy' network and in any case I don't think major benefits will accrue from internal restructuring. I would put most effort into planning, which essentially to me is beating man-made fibres in their own ball park. And we should indulge in a little more evaluation occasionally. It's not desperately painful except to pride and pomposity.

Even I subject myself to a student evaluation in all my courses each year. One thing I've found out and which my daughters have been saying for years, my voice is too loud and I tend to flap around a bit.

The implication of focusing on planning is that most of our efforts must be directed to raising average price.

## 5. Marketing costs

Recall that I said that last year's price was just only about equal to the Korean wool boom high and in between there have been the usual cycles of peaks and troughs.

Meantime costs have been inexorably rising and I can't see the fumbling economic mismanagement of the Muldoon Government ever improving significantly so that costs stabilise or become substantially less ferocious.

Take for example the present marketing costs as listed in the latest Wool Marketing Corporation 1975/76 statistical handbook.

Total farm gate to mill door costs amount to \$58 per bale.

Of these \$17 are paid by the grower and \$41 by the buyer.

In rounded figures:

<u>Grower costs</u> consist of	\$
Transport	2.50
Insurance	.50
Broker's charges	7.00
Wool Board levy	7.00

Buyer costs are mainly

Buyer's commission	5.00
Overseas freight	28.00
Broker's delivery charge	2.00

For most of the time I have been here my research group has concentrated on farm gate to f.o.b. costs and I make no bones about saying we have done more work in this area than any other group in Australasia. But with all the will and luck in the world the best you could do would be to halve these costs - say \$17 to \$8. This would only represent a 15% fall in the total, because New Zealand costs only comprise 29% of the total.

So we have come to the conclusion that future concentration of research effort must be somewhere else.

I suggest two possibilities:

- (a) Lowering of overseas freight charges.
- (b) Raising of sale price.

Again only modest gains can be expected in freight charge reductions even though this is by far the largest farm gate to mill door cost (currently \$28 out of \$58 or 48%). One line we have started researching is a New Zealand Shipping Authority which would control all export cargoes and negotiate contracts with shippers. But even if it works it may not involve substantial economies.

So we're left with the possibility of raising the sale price. And it is here that I believe most future effort should go. It won't be easy, it's been dabbled at before, I don't pretend I have some or even any answers. But I would start with a searching examination of our competitors' strategies and tactics, strengths and weaknesses and I would adjust the wool marketing system accordingly. You may say it has all been looked at before and not much can be done.

6. Summary

- (a) Wool isn't performing too well in the world textile fibre market.
- (b) Efforts to lower marketing costs have not been and will never be particularly fruitful.
- (c) We need to become more market oriented. That is, more consumer and competitor oriented, assisted by the great weight of marketing theory which we tend to ignore or don't swot up.
- (d) I suggest major effort should be concentrated on raising sale price.



HOW WOULD MY ORGANISATION  
MARKET WOOL IN THE 1980s?

by

Fred Dobbs

1. Introduction

Good afternoon. My name is Fred Dobbs. I am Managing Director of Dobbs-Wiggins McCann-Erickson. My qualifications for talking to you are that I have worked in advertising and marketing all of my life, and in the last ten years tended to specialise in consultancy work for consumer non-durables and, in particular, the retailing sector.

I have been allotted approximately twenty-five minutes to speak of the more effective marketing of wool in the 1980s - that's like asking someone to write the Second Testament in the commercial break of Coronation Street. My disadvantage is that I am not a farmer, nor the son of a farmer. Apart from having done a marketing study for a major wool company three years ago I know little about the particular product process.

Perhaps my lack of wool knowledge gives me an edge - I can look at wool marketing with a mind uncluttered by tradition. What I am about to say may have occurred to many people before. I did not come here to make a new revelation, but I suggest to you that unless the wool industry alters its practices now - given that any change would take 3 - 5 years to produce results - then it will be too late for any major position to be held by wool in the market-place. The alternatives for the sale of our annual clip may well be as ridiculous as making ear muffs for Chinese.

## 2. We sell wool, we do not market it

Let's put the subject into perspective. We are talking about a commodity that has become precious to a few New Zealanders who may have it a little out of perspective. It is no longer the major entity it once was. I get the feeling that wool is some sort of club that belongs to a few farmers and an elite group of associated entities.

Wool selling has not altered significantly in hundreds of years, it merely became more complex. It says to you that there is not sufficient evidence for me to accept that wool has been marketed in the sense of marketing applied by sophisticated manufacturers of consumer durable and non-durable goods.

Marketing is the act of taking a product and through flexible practices of sale that allow for changing market and consumer requirements, presents a product for sale in a time and manner that will meet the current or anticipated needs of the growing affluence of the marketplace at a price that is acceptable to that marketplace and provides an optimum profit potential for such a viable activity and its own reinvestment in the future.

The sellers of wool in this country and others have not met this requirement. They acknowledge only that the product, as it has been presented for the last hundreds of years, must be accepted by today's consumer or processor. This attitude is as isolated from consumerism as it is possible to be.

## 3. The Present System is an Anachronism

I accept that the farmer should produce the wool - nobody else can. I accept that he should put it in bales and sell it. From this point on about 70% - 80% of the wool now follows a process from scourer, dump stores, wool auctions, transport and so on, that is an anachronism in our times.

We have a schedule of auctions through eight centres in New Zealand, with associated expense and the clumsiness of fifty years or more of tradition. There are minimum lots ... the farmer that doesn't have this much may be grouped with others and after being classified by wool classers - an elite group, bought by another elite group of wool buyers.

The wool leaves our shores by a tortuous and expensive transport method to overseas converters. (I am aware of private sales but this is not the major method.)

All this process returns New Zealand - or should I have said, the farmer - a profit for our endeavours. In my belief the profit is not near enough because we have sold a commodity without improvement, without addition of content, into a world that has changed beyond recognition since this sale process was conceived.

#### 4. The Auction System, fair enough - but not enough

The method of sale is as old as marketplace bidding, for everyone believes that this is the most visible and fair system of all - well I don't run along with that, because I have been to auction sales with my wife and her friends and I know they don't bid according to the book - they are out for fun. But what could happen if you're not out for fun.

I accept that overseas buyers bid for wool at an appropriate market level, and that it goes to the appropriate highest bidder. But I cannot accept that that is necessarily the highest price our product might have obtained, with a better presentation and perhaps with a single place of auction. As a marketing man, I find the system obsolete, lacking in sophistication. It represents a buyer's market with less of the seller's influence than is desirable.

My basic disagreement with the system is that it sells a commodity, not a product, and thus endangers a significant part of the potential wealth of this country. If it is to continue, then would it not be better to lessen the costs of such a complex schedule, to have the auction in one place, better presented, and the function better controlled in the interests of the total industry rather than its fragmented parts.

5. Has the grower the right to decide about a process of which he knows little - Marketing?

The present system projects the grower, or the grower's representative into a decision position. Our society in the last 50 years has gone through the process of scientific and manufacturing development and in the post war period has mastered "production capacity" . . . . we are in the midst of "selected consumerism".

The opposition of man-made fibres is highly competent, not only in terms of manufacture but marketing. Ingenuity has made fibres beyond the capacity of any farming community, and just as well or we may not be enjoying our standard of living. Man-made fibres have an astute marketing process. They are about the tallest odds that any marketing sector could have.

I doubt whether our growers or their representatives know sufficient of marketing dynamics beyond their immediate requirements yet marketing is changing at a pace in the last three years that is beyond anything we ever anticipated. For instance, in the United States in the last three years the cash register has gone from being a cash registering machine to being the terminal of a computer that in one-thirtieth of a second, can for any major chain store acquaint the salesman with any one of millions of its customer's credit rating, accept the goods via a laser beam universal code

reading, add the purchase to the credit of an individual customer, produce a print-out to the supplier. For the first time in our history major retailers, with millions of customers, can have an instant inventory, store by store, area by area. The computer print-out each day goes to the supplier. The effect is that retailing is being perfected by consumerism; distribution is being affected, for warehousing is now going back to the manufacturer. Transportation has to meet the new demands of instant delivery to the quicker perceived requirements of retailers, and in consequence the consumer. And retailers tend to get bigger.

The computer link cash register, now only three years old, will be seen to have made the biggest single impact in our marketing system. Wool and wool products are not removed from such changes. Whilst I respect the farmers' contribution to the economy - the economy is now so important to so many - the issue goes beyond the traditional consideration we give the farmer in the selling process.

#### 6. New standards for wool - New Zealand Government Guarantee

I have accepted that the farmer produces the wool and I accept the bale, but it is a poor package. Consider the competitor's advantages; it is just as necessary for wool to have new technical standards. If we had a fixed technical standard, then by what authority? I believe the authority should be Government or a Government board. At this point some of you will want to close your ears. If so, I feel sorry for the rest of New Zealand.

For a product to succeed it must have perceived, guaranteed standards. There are too many standards with the present wool commodity. Although determined by skilled experience, this is not the manner, or the measurement, necessary today. There is the need to impress a scientific measurement system that will classify wool

to accepted technical standards that may in turn achieve acceptable price levels, even without an auction system. In any marketing mix product standards and product quality control are an essential aspect. I do not believe that any real marketing innovative process can begin unless there are new perceived and acceptable technical standards, for it is the standard which would become the marketable entity, not the commodity.

Such a guarantee must be given that it is indicative of a promised function and performance, universal to the requirements of manufacturers world-wide. It is important that we set the standards for New Zealand wool that are recognised world-wide.

For instance 347/42/3 wool from New Zealand will be worth the price of X cents per kilogram.

Only by setting acceptable technical standards can wool compete with its competitors.

## 7. A Glimpse of the Consumer World in the 1980s

Changes in distribution are happening so fast that today's emerging trends will become powerful forces in the 1980s. No business is more immediately affected than retailing. Each day presents new challenges with a fresh set of consumer demands and competitive pressures. Today's customers are disposed to trading up. They are more oriented towards high fashion. They want to pick and choose more. They are more sophisticated and sceptical than they have ever been before.

Consider then, the greater demand for quality and sophistication in the 1980s. Note, I do not believe they will demand lower priced products unless they are in the lower socio-income groups. The consumer wants value for money.

In the United States, one of our primary export markets, the conditions in 1980 will be as follows:

72% are likely to be high school graduates.

Nearly 20% will have had university education to some extent.

13% will be earning over \$25,000 per year, extending to

27% by 1990.

33% will be earning between \$15,000 and \$25,000 per year

and that is expected to remain constant until 1990.

23% will be earning between \$10,000 and \$15,000 per year

and that will have dropped to 17% in 1990.

The average American housewife - if there is such a woman -

will spend 19 hours per week preparing food and doing

housework, compared with her counterpart in 1922 having

to spend 79 hours per week.

Today 50% of women are working. By 1984 65% of women will

be working.

Currently they contribute 26% to the income of the family.

Who knows what they will be doing in the 1980s.

There will be more single people and we will have zero

population growth in most affluent markets.

Let's take a look at the people who might buy wool. They will be married, single or "mingles". For those of you who are not up with the play, mingles are people who live together unmarried happily ever after. Their numbers are now a considerable influence on our research. Generally they buy the most expensive products. So the consumer will be more affluent, highly mobile, very self-concerned, and nearly all will be fashion and appearance conscious.

The merchandise that will succeed will be "ego-intensive" merchandise, perhaps pure wool and expensive natural products.

One could safely predict, also, that the credit card will extend its influence well beyond the American market and is already significant in other affluent markets that will be our export markets.

## 8. The Retail Change

To be sure, it will be an age of uncertainty, and people will tend to spend more on quality merchandise, rather than low priced merchandise. Sales will be made by the EFTS system, that is the Electronic Funds Transfer System, whereby whatever you purchase at any store will be entered on to your banking slip at your bank.

Your bank will be in direct computer communication with major stores, and it's happening now. There will be more advanced retail systems, as already mentioned stores will be larger. Merchandise will be dictated more by the retailer and not the manufacturer. Advanced larger retailers will effect major changes in delivery, warehouse and distribution systems.

## 9. Positioning New Zealand wool as a different premium product

In the brevity of this address, I have not the time to amplify terms, such as "demographic segmentation", "product positioning". Suffice to say they are fundamental to a considered marketing strategy. In recent years we have seen the attempt of the 'Wool Mark' to sustain consumer appreciation of pure wool and its more recent derivations. This emblem has done a worthy job, as much as it could, but it did not answer the problems that were more important to the future of wool in terms of attaining a better product and service to industry. A few would disagree that wool must find itself priced for the top end of the market, not so much because of its inherent costs structure but man-made fibres with new manufacturing processes must become lower priced. Accept then that wool is going where it should be: that is in the luxury or premium segments of the marketplace. The wool mark is international and therefore assumes an umbrella effect. I don't think we in New Zealand should accept the destiny of its universal effect.



It is simply not suitable or specific enough to apply to the strategies necessary for a New Zealand product. I suggest New Zealand wool is NEW ZEALAND WOOL. Whilst acknowledging the wool mark, we should seek by a different communication programme and product design, to better position our wool products at the top end of the market. With a better product and service we should establish a communication programme in prime markets to obtain an appropriate consumer response for New Zealand wool carpets and furnishings. I believe New Zealand is a marketable entity that could assist in better positioning our products separate from the generic wool product. To achieve a separateness, let's look at a communication difference.

#### 10. A Communication difference Now Wool

Assume for the purpose of our discussion, the product produced in New Zealand is called NOW WOOL. So far in my remarks NOW WOOL has a technical standard, the next requirement is to give it a perceived difference and demand by the consumer in the marketplace. Allow me to comment concerning a process which we call the creative rationale in our organisation.

First, we would posture that the present consumer attitude is . . .

"If I buy wool because I know it is a naturally better product."

Second, "If I buy wool it's because I think it is better in relation to reflected health benefits."

Third, "If I buy wool I feel it is more expensive and it is not often as fashionable as other products."

Fourth, "If I buy wool I believe that it is not as convenient or as washable as a new man-made fibre."

Out of such comments we would believe that we have to strengthen the consumer's belief in the better health qualities of

wool, modify the feeling that it is not a long life garment or product and change the belief that it is not fashionable. In summation, the desired consumer response for NOW WOOL is:

"If I buy New Zealand NOW WOOL, it is because I know that it is a standard and fashion that will give pleasure to me. "

"If I buy New Zealand NOW WOOL I think that it is a natural product and has benefits that are not present in a man-made fibre. "

"If I buy New Zealand NOW WOOL there is an aura of quality. "

"If I buy New Zealand NOW WOOL it is because I believe that New Zealand wool is the best in design trends and technical excellence."

From all of this we would have a concept for our communications as follows:

"New Zealand NOW WOOL is a natural product with leadership in design and quality and service. "

So much for the consumer NOW WOOL; it must have real meaning to the retailer and manufacturer. It must have a NOW service with a new concept in merchandising, delivery and cost incentives. If you are in doubt about a branded commodity, I could refer you to many case histories but perhaps the two most outstanding near commodity conversions have been firstly, 'Outspan' oranges made a better orange when oranges were oranges; secondly, 'Chiquitta' bananas made a better banana when bananas were just bananas.

#### 11. From the Grower to Where?

The inherent tortuous route of wool to the end user is almost unparalleled in its complication. I believe that it is outdated in terms of servicing, sales to manufacturers, transportation and after-service

in every respect. We should attempt to eliminate the fragmented sales and varied process. We are dealing with a vital component of our country and after it is baled at the farm it should have a major centralised computerised warehouse cost process reflecting its technical classification and sold through a central service which may eliminate the auction system and be delivered to customers at their convenience, not ours. All this is on the assumption that we will sell a wool clip; however I would prefer to think that we could sell a product in which the New Zealand farming skill is combined with the country's manufacturing skill.

## 12. Converting a Commodity to Product Profits

Too much of our agricultural ability is sold as commodity. In tomorrow's world we cannot afford to discount our own industry. We seem to be concerned with price potential rather than with profit potential - they are not the same. We should, as a basic requirement for the 1980s, aim at having at least 50% of our wool converted in New Zealand into products that have a greater profit potential for the country as a total entity. The separateness of our agricultural industrial interest is to be deplored. What is our wool good for? As a coarse wool we are primarily concerned with furnishings such carpets, drapes, upholstery and so on, but that's not so bad. It is less vulnerable than high fashion apparel. If we can decide our best area of wool conversion, let's decide also that it is better for our NOW WOOL brand. Also, with a growing percentage converted into finished consumer products; I do not believe we can ignore the need for NOW WOOL product or yarn for overseas converters. Accordingly there is a need for a better appreciation of the machinery requirements that are developing in manufacturing and in consequence our NOW WOOL mixtures or products must be compatible. Wool must be flexible.

We cannot continue to sell farm products otherwise we will be a land of farmers with a constant imbalance of contribution to our own growth and prosperity. We can farm better than any other country and we can make products as good as any other country. The catylist has got to be a more effective Wool Product Marketing Corporation to co-ordinate and master plan such an activity for the 1980s.

### 13. The New Zealand Wool Products Corporation

Perhaps this is with us now but not in the manner I intend. It has been proposed in previous reports, perhaps not in the manner intended by the traditionalist. At the moment there is no master plan that I know of and I guess that is what the seminar is all about.

Should we not be deciding who is going to decide the issues concerning the potential wealth of the country - the grower - the vested interest of other sectors - the Government?

It is about time we stopped losing time, we have not got much. I would hope that the Government would respond in the interests of all and as a consequence conceive a plan that would, in its statement and philosophy, obtain a greater effect from a combined grower and industry through a Wool Product Corporation. Such a Corporation should have the financial ability to buy the clip at proper prices and to be able to provide new levels of technical product development and professional sales service and above all perform a designed function that reflects the place and the requirements of the indigenous primary markets of United States, Europe and Japan, through its own or contracted manufacturer, produce products that are more profitably saleable.

#### 14. New Product Designs for Different Market Sectors

Every market has its difference and assuming we have a New Zealand Wool Products Corporation, then there should be a reflected in-put through its offices in the primary markets of the United States, Japan and Europe, where it is expected that appropriate executive ability would be able to determine product opportunities, and servicing not only for converters but for retailers of our own products. Above all there should be a local design contribution so that New Zealand NOW WOOL will meet the taste requirements of both individual markets.

#### 15. More Emphasis on what Markets want, than Finding New Markets

Seemingly we have historically endeavoured to find new markets and when we have problems with the old ones. Each new contract has been applauded for its effect of diversification but it really was not a diversification. It happened to be, in most instances, a short term escape route because we have not competed with what markets want. We can in this country make what individual markets require. We have the experience, the manufacturing ability. We lack only one thing, that is the design component. I suggest we use overseas design for our products and do our own marketing. Let's look at the markets which have the largest potential.

#### 16. The Target Markets - North America, England, Europe and Japan - The East

Our wool clip will have less appeal in the 1980s as manufacturing and technology advance so let us look beyond this acceptance in those target markets of affluence and resell it as a different product in a different form. Essentially, we must maintain our living

standards in this country on a comparable basis with affluent markets. If our products won't do it in one way, then we must make the product that will, but essentially we are aligned with the destinies of the affluent rather than emerging markets.

#### 17. The Magic Carpet

Of the many products that we could look at, perhaps the carpet industry offers the greatest potential. If all of our wool was converted to carpet, then perhaps we would make the greatest contribution to the country's economy. We have to concern ourselves with a luxury product. The tremendous technical advances in the manufacturing of carpets will bypass wool unless we make a wool carpet or carpets containing wool, better than anybody else. Essential to this is the better design, distribution and selling price.

#### 18. What is the Potential for the Carpet Industry Worldwide?

My observations, there are not many countries in the world in the next decade that will not be a market for carpet. Perhaps fewer will be potential market for luxury carpeting but there is sufficient for New Zealand to compete with New Zealand NOW WOOL carpets. Carpeting has gone beyond what we have accepted into a wide range of floor covering for a much wider range of applications. Let's look at a carpeting case history that I was part of overseas.

#### 19. A Carpet Case History

So far I have made constant reference to servicing the customer. If we were to convert a greater amount of wool into carpet, we could service retailers direct by air from New Zealand. Gentlemen, it is not only feasible, it is profitable and has been already done in mileages

equivalent to our desired market places. Back in 1970 the Lockheed aircraft company completed an experiment for carpet manufacturers in Atlanta, Georgia, United States. Nearly 82 per cent of all carpeting is made in that area amounting in that time to well over 230 million square yards. The carpet manufacturers in the area agreed to the experiment because it represented many advantages, better customer services, less warehousing; retailers immediately responded with the knowledge that if a customer walked in and wanted a canary yellow carpet with a triple twist pile, then she did not have to wait several weeks for delivery or perhaps go elsewhere. Therefore air freight made it possible for better customer service and increased sales - the big intangible in any study. In this study, 6500 square yards of carpet worth \$30,000 were rolled, placed on pellets for easy loading and were flown the 3000 plus miles to the Los Angeles coast. The carpet manufacturer at that time described the benefits this way:

"With air distribution of carpets across the country, two very important concepts are brought to mind. Firstly, the overnight service is possible, and secondly, possible reductions in costly warehousing and inventory."

Gentlemen, that was five years ago. Today, major carpet manufacturers in the United States are delivering carpet by air to customers. This is made possible in the last several years, such retail companies as "Carpet Talk" operating on a franchise system. This company in the United States has grown in the last three years to 40 million dollars annual turnover. Don Mendenhall's "Carpet Talk" company made its meteoric ride through selling carpets, drapes, wall coverings, bedspreads. Note that there is only one product there we cannot make out of wool. They opened show rooms throughout the United States with automated tape-recorded messages aligned with their display. They offer in each one of their outlets 720 carpet samples, 500 drape samples and an instant service on any one. Currently, that company has a present programme

anticipating 1500 franchise stores serviced by 12 - 15 distribution centres with foreign expansion in joint ventures. That is one example of customer-retail carpet development in the last three years. Add to this the dimension of 'new distribution' such as air freighting and you can envisage the changes of the 1980s.

## 20. Potential for Drapes and Furnishings

As illustrated in the previous case history, there is considerable potential for drapes and furnishings, for in commenting about our carpets I would not want the seminar to believe that the carpet is the only magic answer, although it is significant. Other areas for interior fashion furnishing can apply equally well to our anticipated wool conversion activities. "NOW" wool fashion can apply to an increasing range of interior fashion requirements.

## 21. The Capacity to be Different and Succeed - Product and Process

The key factor for marketing New Zealand wool in the 1980s is in our capacity to be different through the intelligent use of research and professional marketing guidance. Essentially our NOW WOOL has to be accepted as a product and not a commodity and the product must reflect either the process of manufacturer which we could more desirably implement in this country or the new process of manufacturers which are occurring and changing every day in overseas markets. We have to think of customer service that will eventually force us to bypass the present process of auction, warehousing, storing and slow deliveries that we have historically clung to. Let's make the yarn in New Zealand and deliver it by air at a time and a price that is convenient to our customers. Similarly, let's make the products in New Zealand that the retailers want and through better transportation and warehousing process deliver them when the customer-retailer wants them.



## 22. Transport, Warehousing . . . . The Client's Service

The time has come to recognise that in this affluent society the raw material product has become less of the significant factor in terms of its profit potential. The ingredients in the marketing mix that have become more important are faster delivery services and new transportation methods that will suit the convenience of our clients. These must be associated with better warehousing practice and control and this surely applies to wool. It is obsolete for us to expect in the 1980s that manufacturers can afford to buy our product at the time of our auction and hold it at their place and inconvenience. The wool industry has to look at itself in terms of client service, for at the present time there is precious little service being offered to the manufacturing converter or the retailer.

## 23. The Myth of the Golden Fleece

Selling our wool clip at auction in the 1980s will expose the myth of the Golden fleece. The wool we sell will have to be New Zealand Wool produced to meet a perceived requirement of our target recognising that the greatest potential is to be obtained from the products that we will conceive, develop and design for what will be a new affluence level with a hunger for natural or luxury products.

## 24. It is easier when one is not a Farmer

It is easy for me to tell you your future as I am not a farmer. If I were a farmer I could appreciate that I would want to have more proof that the world has technically and in affluence gone beyond the traditional acceptance of the present product. But, to what degree can

we offer proof of the changing conditions in the 1980s that will change the farmer's mind today? I believe other reports have been completed and ignored, because there was the fear of change. We all know the change is inevitable. We should be more concerned with the rate of change for we have little time left to plan for our recovery. I would demand that the farmer be more flexible and that those in authority seek to find more profit in wool than we can obtain with the present system, otherwise my future, as well as the rest of New Zealanders, will be less affluent.

#### 25. Pink Bales

At the beginning of my comments I accepted the farmer approving process and the inevitable bale of wool. If the industry is going to cling to the same process of auction and the sale of a non-converted commodity, the only marketing suggestion that I can offer you is that you pack it in pink bales. In that way it may look a little different and you may get a little more for it. It won't be enough for your living standards in the 1980s because the pink bales may float around the world in the hulls of ships looking for the markets that used to exist.

#### 26. Conclusion

Pure wool is not obsolete for the 1980s. It just is not practical in its present form or as profitable as it once was.

Bales of wool leaving New Zealand offer a minimum potential to our economy.

We must seek to make our own products to suit those markets that are the affluent markets aligned with their own standard of living.

We must make more consumer products aligned with the New Zealand wool products.

We should have standards for our wool that separate it from other wools and give a known factor for manufacturers.

We should make a marketable difference with New Zealand wool and give it a communicable name or brand of its own.

We should strive to find products and have the design requirement for the market so that they are fashion and design leaders.

We should seek to give greater service to the converter and to customers and overcome the long distances we have for market places with the better establishment of warehousing and transportation practices.

We should recognise that retailing is changing because the consumer is changing and that in this changing world the only penalty is tradition and lack of courage.

I believe that the changes in 1980s offer greater opportunity and profits for wool than it has ever had in any previous decade.

There is a need for a plan that is bigger than the industry. The plan has to have the authority of Government and the effect of embracing the farming and industrial interests of our country.

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