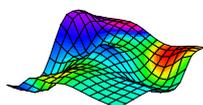


Report to

Australian Wool Innovation

Benefit Cost Analysis of AWI's
No Finer Feeling Campaign Investment

June 2014



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KEY EVALUATION RESULTS

- AWI's No Finer Feeling Program was launched in December 2010 and will run until 2016. The investment made by AWI will total \$46m by the conclusion of the Program.
- The initial phases of the Program involved building consumer awareness and developing partnerships with the fashion and media industries.
- The Program is now consolidating into its final phase which involves designer and retail engagement. Engagement of Program partners will drive the achievement of Program targets as described in the AWI 2013-16 Strategic Plan.
- Benefits to Australian woolgrowers are estimated at \$76m, representing a return of \$1.70 on every dollar invested.
- Benefits ultimately generated by the AWI investment were found to be sensitive to the extent to which increased consumer demand is sustained once the Program investment is finished. Consequently, AWI investment should ensure that changes created in consumer attitudes to wool, and hence demand, are long lasting.
- Benefits were also found to be sensitive to the growth in partner sales once the program investment is completed. If AWI partners can continue to enjoy even modest rates of sales growth into the future, leveraging of consumer interest in wool as a fashion fibre, then benefits generated for Australian wool growers would be significantly higher.

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BACKGROUND

BDA Group was commissioned by AWI to complete a benefit cost analysis (BCA) of their marketing investment for the No Finer Feeling (NFF) Campaign investment. This investment was made under AWI's 2010-13 Strategic Plan, Marketing Strategy 1: Fibre Partnership Marketing, Program 1 - Consumer Education and will be funded until 2016 under the 2013-16 Strategic Plan. The analysis was completed with the primary purpose of providing a robust assessment of the potential returns to Australian woolgrowers from that investment and forms part of the series of AWI investment evaluation reports.

The analysis reported here also includes a Program Investment Logic which provides a brief summary of the value of the investment to Australian Wool Growers, investment targets and activities and identified funding gaps that will aid in directing future funding in this area (Attachment). This program investment logic was also developed to support the planning process for the AWI 2013-16 Strategic Plan and will be reviewed on a periodic basis as part of AWI's internal monitoring and evaluation process. Under this plan NFF will operate as a dedicated program.

The report was initially submitted in November 2013. As the 2012/13 report on program progress was to be submitted in December that year, it was decided to revise the report in-line with the updated progress data in February 2014. A revised version was prepared in June 2014 to highlight AWI's target outcomes compared to the sensitivity analysis completed under different impact assumptions.

INVESTMENT

NFF was launched in December 2010 as a five year program¹ to increase awareness, and consumption of wool across an emerging segment of consumers who have limited knowledge and experience of wool as a fashion fibre.

The campaign seeks to position Merino wool as the premium, luxury fibre of choice across menswear, womenswear, knits and wovens². Over the life of the program AWI will invest \$46m³.

NFF was constructed as a three phase campaign.

Phase 1: ***Building Awareness across Consumer Segment***

The first phase of NFF started the Fashion Conversation and involved promotion to consumers about the attributes and benefits of merino wool. The two streams to this phase included fibre advocacy promotion, that sought to connect the natural production of wool

¹ The Program has been extended to a six year program under the current Strategic Plan.

² AWI Year 1 and Year 2 ROP Summary.

³ This cost includes an average allocation of AWI operational costs to marketing programs on a dollar per dollar of project cost basis.

on-farm with quality fashion apparel, and the second was the engagement of fibre ambassadors (such as Margherita Missoni and Alessandro Benetton) to convey to the target consumer segment why they preferred wool as a natural luxury fibre.

Promotion was achieved through a range of media including magazines such as Vogue, GQ, Vanity Fairy, Harpers Bazaar and Tattler as well as a digital presence with two behind the scenes films (BTS) of the ambassadors fibre experience. The campaign had an exposure of 47 million people across five key markets.

Phase 2: ***Partnership with the Fashion and Media Industry***

The second phase focussed on the wool attributes of handle, drape and feel with promotion through print and digital media (also involving a series of short films used for digital media). Targeting the younger end of the luxury goods consumer market and challenging the barriers to consumption, through a virtual touch/feel experience of Merino wool to show wool as a finer and lighter fibre than they ever thought possible.

In addition, the partnerships with leading international fashion designers and media collaborations were extended. The third year of the campaign (Autumn / Winter Nth hemisphere 2012/13) involved partnerships with 30 partners in a range of collaborative marketing and product promotion activities.

Phase 3: ***Designer and Retail Engagement***

The driver of impact of NFF is the extension to and engagement of retail partners in collaborative marketing activities that leverages off the NFF brand awareness across target consumer segments. Partnerships established at the brand or designer level have a global presence and many of these brands have their own retail outlets while the remainder use well know retail businesses or on-line retail sites for distribution of their product. In comparison some designers have strong media presence and aspirational interest from consumers, but lower volumes of production. By linking with global brands there will be a direct link into retail and hence consumer engagement and opportunities to purchase.

Under the brand of NFF each marketing partnership is designed and delivered in a manner directly relevant to them and includes:

- 1 identification of margin priorities across each retailer and brand;
- 2 assistance with product development, innovation and sourcing networks through The Wool Lab and Licensee connections;

- 3 co-creation of promotional messages, creative collateral, themes and in-store and on-line merchandising targeting priority products and the appropriate delivery specific to each partner;
- 4 training of buyers and trade as required to help specify wool in their product range and retail outlets;
- 5 creation of training materials or training for floor staff on the benefits of using wool in their product range;
- 6 creation of media content for online, advertorial and public relation activities as appropriate; and
- 7 as required, assist partners implement their internal or in-store events that align with NFF themes.

PROGRAM PROGRESS

The Report on Progress up to and including 2012/13 was made available in December 2013 ⁴. The report provides a detailed breakdown of activities and outputs in each year and a summary is provided below.

2010/11

Promotional Material Produced

- Development of the Merino, No Finer feeling theme line.
- Images relevant to menswear, womenswear, knit and woven luxury merino fabric.
- "Behind the Scenes" films produced.

Communication Activities

- Merino.com website secured.
- Digital campaign run in Germany, UK and France with a total of 6.3m impressions (a measure of the number of times an ad is seen on-line, whether it is clicked on or not).
- Campaign program also launched in Italy, Japan, Australia and the USA.
- Campaign seen by 47 million people.

Partnerships

Margherita Missoni and Alessandro Benetton engaged as fibre ambassadors.

⁴ 2012/13 ROP provided by the NFF Program Manager, Diane Almond, December 2013.

2011/12

Promotional Material Produced

- Printing of creative collateral and a series of films including a 'Behind the Scenes' film produced and made available with on-line digital media and Apple i-phones.
- Press kits and fabric swatches were made available at trade shows.

Communication Activities

- Advances in technology were used including QR codes and augmented reality in print media to bring alive the printed image or i-pad to link direct to merino.com and the films.
- Campaign expanded to include China & the Netherlands.
- Woolmark Youtube channel was modified to increase web traffic to merino.com.
- 56.4 million impressions on Youtube, 1.4 million fully played film views, 222k clicks on Youtube and 22k unique visits to merino.com
- Campaign seen by 186 million people.

Partnerships

Armani and Ermenegildo Zegna engaged as ambassadors.

2012/13

Promotional Material Produced

- Further development of material and increased emphasis on delivery through digital media, media and designer collaborations.
- Press kits and fabric swatch feelers produced for trade shows.

Communication Activities

- Program expanded to Hong Kong, Korea, Taiwan, Middle East, Turkey, India and the Nordic region.
- Campaign seen by 273 million people.

Partnerships

Engagement of designer and media collaborations including Vivienne Westwood, Jean Paul Gaultier, Maison Martin Margiella, Thom Browne, Dolce & Gabbana. Salvatore Ferragamo, Givenchy, Marc Jacobs, Donna Karen, Marc Jacobs, Lanvin, Missoni, Diane von Furstenberg,

Alexander Wang, 10 designers from the Haute Couture Federation, L'Uomo Vogue and Vogue France.

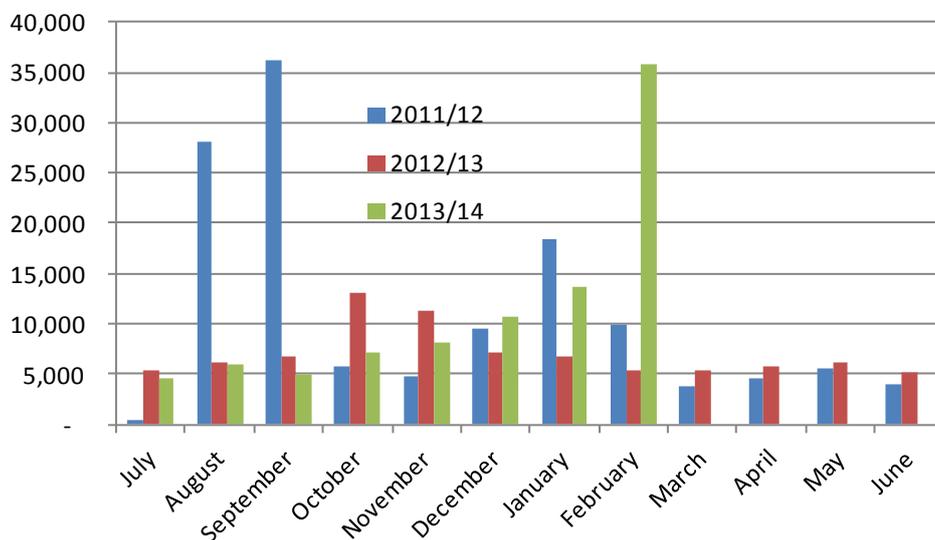
2013 to 2016

The NFF program will continue to be rolled out and the designer/media collaboration reach widened each year. Over this period the NFF Program will be reported against as a separate AWI program. By 2016 the Program will seek to achieve an increase in the media (consumer) reach to 750 million people and engage, at least, a further 8 designer/retail program partners.

To date the number of partners engaged via various collaboration channels has increased to 60⁵ and feedback from AWI Americas office suggests that there has been an increase in the use of wool in collections offered for sale by some Program partners, which should translate to an increase in consumer awareness, engagement and overall wool demand.

Total visits to merino.com have now passed 300,000 and month on month visits continues to build over 2013/14⁶. Monthly visits to merino.com are shown in Figure 1. The spikes in numbers (August/September and February) directly relate to media activities in market as media campaigns are launched each season.

FIGURE 1: MONTHLY VISITS TO MERINO.COM



The target increase in wool demand by 2016 is around 1 mkg a year, which represents some additional 1.5 million units sold. As part of the Strategic Planning process within AWI approaches

⁵ Progress against Strategic Plan and Annual targets is reported to the AWI Board at each of their Meetings.

⁶ August and September 2011 visits reflect the initial launch success of the website in relation to media activities.

to measuring increased wool demand across NFF program partners are being developed, and working with brands who have larger retail distribution, volumes and global reach, for example Paul Smith.

BENEFITS

Benefits are expected to flow to Australian woolgrowers through higher prices for greasy wool. Prices will, to some extent, increase in response to the increase in the demand for wool stimulated through the NFF program. The increased demand for wool is expected to be driven by changed consumer purchasing behaviour, global trends for natural fibres and awareness of Merino wool. Through promotion and retail partnerships it is anticipated that more wool garments will be purchased than would otherwise be the case. That is, additional garments and collection ranges will be available on offer in wool, consumers increase their purchase of wool garments at the expense of other fibres, rather than the substitution of non-partner brands for partner brands or one garment style for another (such as a jacket instead of a jumper).

Underpinning the expected growth in wool demand is the increased profitability for partners involved in the NFF campaign. This profit increase provides the incentive for partners to leverage AWI investment for mutual gain. The process by which partners generate an increase in profits through program participation is illustrated in Figure 2, with the main driver of profitability being the average “Out the Door” (OtD) price across a season’s trading ⁷.

FIGURE 2: GENERATING PROFIT GAINS AT RETAIL FOR AWI PARTNERS: ILLUSTRATIVE EXAMPLE

	Year 1		Year 2		Year 3	
Units Sold	1,000		1,000		1,100	
	→		→			
	Units Sold	OtD Price	Units Sold	OtD Price	Units Sold	OtD Price
First Price Point	600	\$500	650	\$500	700	\$550
Second Price Point	200	\$400	250	\$400	270	\$430
Third Price Point	200	\$300	100	\$300	130	\$300
Total Revenue	\$440,000		\$455,000		\$540,100	
Average OtD Price	\$440		\$455		\$491	

⁷ Example concept provided by Stuart McCullough AWI CEO (December 2012).

The average OtD price achieved depends on the level of discounting by the retailer to move a season's wool stock. In the example provided prior to their partnership with AWI (Year 1) a retailer sells 1,000 units (garments) over a season at an average OtD price of \$440 per unit. This is based on two discounting periods, that is, from \$500 per unit down to \$400 per unit then down to \$300 per unit. The total season revenue in this year would be \$440,000. In the second year the retail partner again offers 1,000 units for the season, but with increased demand from consumers they are able to move more units at higher price points. In the second year, success of the partnership enables the retailer to increase the average OtD price to \$455 per unit. In response to greater profits the retailer increases the volume of wool offered in the following and future years. Again, with success of the partnership and the NFF program a higher average OtD price is achieved. In the example an additional 100 units are offered with an achieved average OtD price per unit of \$491. With the increased consumer demand the retailer could increase unit prices at the first and second offering.

Australian wool growers capture benefits from the increase in wool demand achieved through increased units sold across a season by the retailer⁸. The increased OtD price is a benefit captured by the retailer and the incentive (profit) for them to increase units offered in future seasons. Individual retailers might use different price points for each offering, resulting in different volumes sold – but with the result of increasing total revenue (and average OtD price per unit).

Estimating the value to Australian woolgrowers from the increased demand requires an assessment of the extent to which greasy wool prices would rise as a result. The incremental increase (all other things being equal) will depend on the price and volume effect.

- (1) **Price effect** -responsiveness of demand at the consumer level and the extent to which this demand growth is “passed back” to Australian woolgrowers in the form of higher prices; and
- (2) **Volume effect** - increase in demand that is generated by the NFF program.

Price Effect

Information on the average OtD price is generally of a commercial nature to retailers and typically not available for public reporting. Even if this information were available the increased volume of wool sold through time would still be required to estimate price impacts on raw wool. However, information on increased units sold can be used with economic models to estimate price impacts on greasy wool supply. OtD price data is therefore not required.

⁸ As noted previously, this increase in units sold needs to represent a net increase in demand rather than from substitution by consumers.

Various economic agencies have tried to model the returns to Australian woolgrowers from increased consumer demand for wool products⁹. The problems with these models include: they require regular updating; can be difficult to understand; and are typically aggregated to a level where it is hard to separate out price effects across different market segments.

In this evaluation a different approach has been used, which is broadly consistent with previous evaluations of AWI investments, and is easier to update and to understand¹⁰. The basic principle underlying the approach is that an increase in wool demand at the consumer level will stimulate a similar quantity of supply at the farm level. The value of this extra supply can be quantified in terms of the additional gross margin that would be earned. This value is then adjusted to reflect Australia's share of total fibres in the extra fibre (garments / units) demanded at the consumer level. For the purpose of this evaluation it was assumed that the extra demand would occur in either worsted or woollen mainly wool garments across fine and medium wools (merino). On this basis the return to Australian wool growers from the price effect associated with a 1 mkg of wool increase in consumer demand was estimated at \$2.9m. This estimate was based on:

- 235 m kgs of final product with Australian wool contributing 155 m kgs and other country's wool totaling 30 mkgs¹¹; and
- The gross margin for fine wool and medium wool expressed on a kg clean basis for fine and medium wool of \$4.49 and \$2.30 respectively.

Volume Effect

The volume effect relates to the increase in wool (by weight) demand. This will be determined from information provided by retail partners¹² on their increase in annual wool units sold through time, and adjusted for the average wool content per unit sold. The NFF program is completing its fourth year for the Autumn / Winter season in 2013/14 (Nth Hemisphere). As such, the AWI investment has likely delivered only marginal benefits to Australian wool growers by the end of 2013/14, with benefits being generated as the NFF program consolidates into its third phase. That is, from 2014/15 onwards many partners will enter their second year of participation in the program and as a result are likely to increase their volumes of wool garments offered.

For the purpose of this evaluation increased wool demand is modelled on the basis of targets provided in the 2013-16 Strategic Plan. These targets were set on the basis of the required

⁹ These include ABARE, BDA Group and WA DPI.

¹⁰ This approach was detailed in a BDA Group report to AWI in February 2012. Estimates will provide a minimum value.

¹¹ Other fibres account for the remainder.

¹² Including global designers who sell through varied retail channels.

increase in wool demand for the program investment to deliver a competitive return on investment¹³. Key assumptions regarding increased wool demand include:

- The current number of partners (34 in 2013) will increase to, at least, 42 by 2016.
- Increased wool sales across partners will increase to 1.0 mKg by 2016 – which represents an annual average increase in wool sold of 24,000 kgs per partner¹⁴. This is termed the primary impact.
- An increase in wool sold across non-partners, who benefit from the broader increase in consumer demand, of 15% a year in terms of total partner additional wool volumes. This is termed the secondary impact.

While the extent to which wool demand has increased will need to be determined from information provided by retail partners over 2014, data collected by Nielsen indicates that consumer preference for wool has increased since November 2012 and, more important, that consumer willingness to pay for merino and wool blends has also increased¹⁵.

- Brand equity for 100% wool garments (a measure of people's preference for 100% wool) improved, mainly in UK and Japan.
- Brand Equity for merino wool or wool blends increased in the USA and Japan.
- Consideration for buying 100% wool, merino wool and wool blends garments has increased in China, Italy, Japan and the UK.
- Willingness to pay more for 100% wool garments increased in China and for merino wool garments in China, Italy and Japan.

Under the operating targets of the NFF Program benefits are estimated to reach \$5.1m a year from 2016/17 with a total benefit to Australian wool growers of \$76m. Annual benefits are provided in Table 1.

SENSITIVITY ANALYSIS

The development and implementation of the NFF program is also expected to have sustained impacts once AWI funding is withdrawn and directed to other endeavours. Once increased wool sales have been achieved it is anticipated that AWI funding could be withdrawn with retailers leveraging off broader

¹³ AWI staff are developing necessary monitoring and evaluation approaches to measure the incremental impact on wool demand of the program and hence the value to Australian woolgrowers.

¹⁴ In terms of units sold this would be equivalent to 37,000 units per partner with an average wool weight of 650 grams per unit.

¹⁵ Nielsen 2013, Global Fabric Tracking Study, draft report prepared for AWI, December. The study reports changes from November 2012 to November 2013 in China, Italy, USA, UK and Japan.

AWI activities and materials that are made available to the industry at large. However, the extent to which program partners would continue to sustain or increased sales volumes into the future without continued AWI investment needs to be assessed. For the purpose, of this evaluation three scenarios relating to the completion of the NFF investment by AWI on future sales growth have been considered.

Three scenarios were considered for the purpose of this evaluation. An evaluation period of 15 years was chosen to reflect the period over which sales growth might be maintained ¹⁶. Total estimated benefits through time (undiscounted) were estimated at between \$15m and \$263m and provided in Table 1 below.

- (1) A scenario where demand ceases to be sustained occurs once AWI funding ceases.
- (2) 10% annual sales growth across the evaluation period and reflecting continued demand growth across NFF partners.
- (3) 20% annual sales growth across the evaluation period, representing a greater impact across AWI partners through time.

TABLE 1: ESTIMATED BENEFITS TO AUSTRALIAN WOOL GROWERS FROM NFF: \$M

Year	NFF Target	No Sustained Demand	10% Sales growth	20% Sales growth
2011	\$0.0	\$0.0	\$0.0	\$0.0
2012	\$0.0	\$0.0	\$0.0	\$0.0
2013	\$0.0	\$0.0	\$0.0	\$0.0
2014	\$2.4	\$2.4	\$2.4	\$2.4
2015	\$3.4	\$3.4	\$3.6	\$3.9
2016	\$4.2	\$4.2	\$4.9	\$5.6
2017	\$5.0	\$5.0	\$6.2	\$7.5
2018	\$5.1		\$7.4	\$9.1
2019	\$5.1		\$8.5	\$10.8
2020	\$5.1		\$9.6	\$12.6
2021	\$5.1		\$10.8	\$14.5
2022	\$5.1		\$12.1	\$16.5
2023	\$5.1		\$13.4	\$18.6
2024	\$5.1		\$14.7	\$20.8
2025	\$5.1		\$16.1	\$23.1
2026	\$5.1		\$17.6	\$25.5
2027	\$5.1		\$19.1	\$28.0
2028	\$5.1		\$20.7	\$30.6
2029	\$5.1		\$22.3	\$33.4
Total	\$76.0	\$15.0	\$189.5	\$263.0

¹⁶ Average partner sales growth would need to be monitored through time to test the robustness of these assumptions.

On the basis of the price and volume effect estimated above the benefits to Australian woolgrowers through time was derived for each of the three scenarios considered. As shown, a modest rate of sales growth once AWI funding is completed would deliver a significant increase in returns to Australian woolgrowers.

PAYOFF

In this section the estimated pay off on the AWI investment is reported. Measures are reported in Table 2. It was estimated that the AWI investment will generate benefits to Australian wool growers of \$62.4m in present value terms¹⁷, representing a return on investment of \$1.70 on every dollar invested over the life of the Program by AWI.

The ultimate pay off to Australian woolgrowers will depend on how much and for how long sales growth (increased demand of wool garments) can be maintained across program partners once AWI funding ceases. Sensitivity analysis was undertaken to assess the impact of sales growth once AWI funding of the NFF program ceased. If AWI NFF partners are able to capitalise on the NFF investment in the future and record further sales growth through time the return to Australian woolgrowers would be considerably higher. On the other hand, if the increased consumer demand for wool could not be sustained into the future then benefits to Australian woolgrowers are unlikely to exceed AWI costs.

TABLE 2: INVESTMENT PERFORMANCE MEASURES

Measure	NFF Target	Sensitivity Analysis		
		No Sustained Growth	10% Sales growth	20% Sales growth
Present Value of Benefits (\$m)	\$62.4	\$11.3	\$98.4	\$134.4
Present Value of Costs (\$m)	\$37.4	\$37.4	\$37.4	\$37.4
Net Present Value (\$m)	\$25.1	-\$26.0	\$61.1	\$97.0
Benefit Cost Ratio	1.7	0.3	2.6	3.6

CONCLUSION

AWI's No Finer Feeling campaign seeks to generate an increase in the demand for apparel wool products with flow-on price impacts back to Australian woolgrowers. The campaign was launched in 2010 as a five year program (subsequently extended to six years in-line with the 2013-16 strategic

¹⁷ A discount rate of 5% was used.

plan). The first two years built broad consumer awareness of merino wools attributes and benefits, which, by providing a value proposition for retailers, enabled AWI to enter into collaborative marketing activities with the main designer, retailer brands and media partners across key markets. By working direct with designers/retailers to increase their average out the door price for a season's apparel wool offerings, demand growth may be generated. If AWI achieves the targets set under the 2013/14 to 2015/16 Strategic Plan a positive return to Australian woolgrowers will be generated. If, as expected, AWI retail partners are able to continue to build on the success of the program (and global trend for natural fibres) and generate further demand growth through time, the pay off to Australian woolgrowers will be substantially higher ¹⁸.

¹⁸ AWI is strengthening their monitoring and evaluation process and, in the future, will collect information from retailers to generate estimates of demand growth.

ATTACHMENT

AWI Program Investment Logic – No Finer Feeling

Marketing Strategy	Strategy 9 – Product Promotion			
Program	Program 1– No Finer Feeling Promotional Campaign			
Value to AWI <i>Why is AWI investing in this area? In what way will value be captured by Australian woolgrowers (metric)?</i>	No Finer Feeling was launched in 2010, designed as a 5 year campaign. The first two years consolidated merino as a fashion brand and provided advocacy of the fibre as a leading apparel brand. Over the next three years this awareness will be capitalised on through investment with retail partners to promote merino wool as part of their season's product offerings. The value to Australian woolgrowers will be generated through increased demand for merino wool.			
Target market(s)	Targets leading fashion / retail brands with emphasis on fine wool.			
Measure <i>What could be measured to demonstrate that the value has been achieved?</i>	<ol style="list-style-type: none"> 1. Number of partners engaged and effectiveness of promotional campaign. 2. Increased wool demand. 			
Target(s) <i>For the measure selected what is the target change sought under the strategic plan?</i>	<ol style="list-style-type: none"> 1. Partner Effectiveness: <ul style="list-style-type: none"> • Expand the number of partners from 34 in 2012/13 to 42 in 2015/16 • Increase media reach from 250m in 2012/13 to 750m in 2015/16. 2. Increase wool sales across campaign partners by 1 mkg kg a year by 2016 with additional sales across non-partners of 15%. 			
Investment Activities <i>What activities have been undertaken with AWI funds to achieve the target?</i>	<p>Main activity will be development and delivery of promotional materials with retail partners supported by broader AWI led media campaign.</p> <ul style="list-style-type: none"> • Media usage will continue to shift from traditional to digital. • Content development with partners. • Stronger alignment between Tier 1 Key Accounts and NFF partners. • Roll out in USA, China, Japan, UK, Germany, Italy, France, Korea and Australia. • Primary focus will be on Autumn / Winter demand with additional activity bridging into shoulder seasons for lighter weight products. 			
Investments	2013/14	2014/15	2015/16	Total
AWI Projects	\$6.8m	\$6.8m	\$6.8m	\$20.4m
AWI Operational	\$4.9m	\$4.9m	\$4.9m	\$14.7m
AWI Total	\$11.7m	\$11.7m	\$11.7m	\$35.1m
Wool Growers				
Others Parties				
Gaps <i>What gaps currently exist in which AWI investment might be required in the future to ensure target is met?</i>	Need to develop comprehensive process for monitoring and evaluation of retail impacts on demand growth.			