

Report to

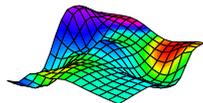
Australian Wool Innovation

Benefit Cost Analysis of AWI's Campaign for Wool Investment

Contents

BACKGROUND	1
INVESTMENT	1
BENEFITS	2
1 Price Effect	2
2 Volume Effect	3
PAYOFF	5
CONCLUSION	5
ATTACHMENT AWI PROGRAM INVESTMENT LOGIC	6

August 2012



BDA Group
Economics and Environment

BDA MELBOURNE
PO Box 6009
Hawthorn West, VIC 3122
Ph (03) 8684 9707

BDA CANBERRA
PO Box 4022
Manuka ACT 2603
Ph (02) 6282 1443

BACKGROUND

BDA Group was commissioned by AWI to complete a benefit cost analysis (BCA) of their marketing investment for the Campaign for Wool initiative. This investment was made under AWI's 2010-13 Strategic Plan, Marketing Strategy 1 Fibre Partnership Marketing, Program 5 Public Relations and Fibre Publicity. The investment was also supported with AWI marketing funds. The analysis was completed with the primary purpose of providing a robust assessment of the potential returns to Australian wool growers from that investment.

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).

INVESTMENT

The Campaign for Wool (CFW) is a targeted marketing initiative of AWI focussed on increasing the demand for wool through partnerships with key retailers. The initiative was launched in 2010 with set up investment being made in 2009/10. A separate company was established (The Campaign for Wool Limited) with HRH The Prince of Wales acting as patron. CFW was launched in the UK in 2010 and expanded to Japan, Germany, Netherlands, Norway and Spain in the following year. In 2012 plans are underway for expansion into China, Korea and France. From 2009 to 2014 AWI will invest a total of \$4.6m¹. The initiative is planned to run for at least 5 years.

The centre piece of the CFW is promotion of wool products for a week long period in different regions throughout the September, October and November months each year across AWI retail partners. A collaborative marketing program is developed with individual retailers and further support is provided through:

- Support of trade events
- Point of sale materials (such as swing tickets, window displays, posters and information material on wool attributes).
- Consumer marketing though events (such as street events).
- On-line activities such as the CFW website and participation on twitter and facebook.

The CFW operates under a number of key performance indicators². These include:

¹ There is also an investment made by retail partners in excess of what they would normally spend on wool related marketing. The benefit from this investment is generated from increased sales turnover and profit while for AWI the benefit is generated from increased volumes of wool sales. Each party seeks to gain leverage of the other and hence encourages a partnership approach.

² Sourced from AWI Program files – Review of Performance 2012.

- Participation of retail partners (achieved 117 in 2010 and 333 in 2011).
- Editorial value of CFW exposure in printed media (achieved £4.8m in 2010 and £11.0 in 2011).
- Reach of consumer marketing (consistently achieved in the many millions).
- Shifts in consumer attitudes (baseline established in year 1 and to be measured again in year 5).
- Wool consumption as measured through partner declarations. Not measured extensively to date and there is difficulty in doing so as there are no agreements in place with retail partners. In 2010 two partners reported sales growth of 5% and 19% - based on 2009 versus 2010 seasonal sales, and one partner reported sales growth of 8% from 2010 to 2011³.

Central to the intent of this evaluation is the expected increase in wool consumption that has been, and will be achieved. Because the initiative supports regular retail promotion activities of retailers it is anticipated that there would be a shift away from consumer purchases of other fibres towards wool garments during (and possibly for some time after) the in-store promotion. Over the course of a year, if retail partners increase the contribution of wool sales to their total revenue then the increased wool sales will reflect new demand rather than substitution (consumer bringing forward wool purchases). The consumer attitude survey will also demonstrate that increased sales represent a change in consumer purchasing behaviour rather than consumers shifting purchases away from non-partner stores.

BENEFITS

Benefits will 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 CFW initiative. The extent of the price rise will be determined by the;

- (1) **Price effect** -responsiveness of demand at the consumer level (how much the growth in demand increases consumer prices) and the extent to which this price increase is "passed back" to Australian woolgrowers; and
- (2) **Volume effect** - increase in demand that is generated by the CFW initiative.

1 Price Effect

Various economic agencies have tried to model the returns to Australian woolgrowers from increased consumer demand for wool products⁴. The problems with these models include: they require regular updating; are difficult to understand; and are typically aggregated to a level where it is hard to separate out price effects across different market segments.

³ Some partners have provided confidential feedback to AWI on an informal basis.

⁴ These include ABARE, BDA Group and WA DPI.

In this evaluation a different approach has been used, which is broadly consistent with previous economic modelling work, but is easier to update and understand⁵. 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. On this basis the return to Australian wool growers from the price effect of a 1 mkg of wool increase in consumer demand was estimated at \$2.2m. This estimate was based on:

- 235 m kgs of final product with Australian wool contributing 155 m kgs, other country's wool totaling 30 m kgs and non-wool fibres contributing 50 m kgs; 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.

2 Volume Effect

The volume effect relates to the increase in wool (by weight) demand. This could be determined from information provided by retail partners on their increase in annual wool sales or wool garments sold. While this information might be available at a later date an assessment has been made here using broad industry averages. The cross section of retail partners and stores involved in the CFW is broad enough to relate to industry averages. It was assumed that:

- Each retail store sells 200 units week @ an average price of £150 each. This would suggest that each store has an average turnover of £1.6m each year⁶.
- At 5% increase the extra units sold would be 520 each year.
- At an average weight of 650 grams⁷, the total weight of extra units sold per store would be 338 kgs.

To estimate the total volume effect consideration needs to be given to the number of retail stores involved with the CFW initiative through time, the annual increase they have achieved from year to year and the level of sales increase that can be maintained once investment in the CFW by AWI ceases.

⁵ This approach was detailed in a BDA Group report to AWI in February 2012. Estimates will provide a minimum value.

⁶ Store size will vary. Burberry, for example, had an average store turnover of £2.3m in 2011 across 417 stores, concessions and outlets (2011 Annual report).

⁷ Derived from AWI conversion factors.

- Retail partners involved in the CFW initiative were 891 in 2010 and 751 in 2011 and it was assumed that from 2012 onwards 1,000 stores across the target markets would be involved as the total annual investment is increased. The store data for 2010 and 2011 was provided by AWI staff and are based on either photographic or written proof of in-store activities. The actual number is likely to be higher.
- A 5% sales increase was taken as the base level gain with sensitivity analysis carried out on a 10% and 15% increase.
- Sale growth was assumed to be maintained at least as long as the life of the AWI investment (Base). Again sensitivity analysis was carried out for longer periods where sales growth was maintained without AWI investment. This is likely given that retail partners will increase their sales revenue and profitability from participation and hence would seek to promote wool on a similar basis. Periods of 5 years and 10 years were chosen.

On the basis of the price and volume effect estimated above the benefits to Australian woolgrowers through time was derived. Estimates are provided in the Table below. Total benefits through time (undiscounted) were estimated at between \$3.5m and \$32.7m.

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

Year	5% Sales growth			10% Sales growth			15% Sales growth		
	Base	5 years	10 years	Base	5 years	10 years	Base	5 years	10 years
2010	\$0.7	\$0.7	\$0.7	\$1.3	\$1.3	\$1.3	\$2.0	\$2.0	\$2.0
2011	\$0.6	\$0.6	\$0.6	\$1.1	\$1.1	\$1.1	\$1.7	\$1.7	\$1.7
2012	\$0.7	\$0.7	\$0.7	\$1.5	\$1.5	\$1.5	\$2.2	\$2.2	\$2.2
2013	\$0.7	\$0.7	\$0.7	\$1.5	\$1.5	\$1.5	\$2.2	\$2.2	\$2.2
2014	\$0.7	\$0.7	\$0.7	\$1.5	\$1.5	\$1.5	\$2.2	\$2.2	\$2.2
2015		\$0.7	\$0.7		\$1.5	\$1.5		\$2.2	\$2.2
2016		\$0.7	\$0.7		\$1.5	\$1.5		\$2.2	\$2.2
2017		\$0.7	\$0.7		\$1.5	\$1.5		\$2.2	\$2.2
2018		\$0.7	\$0.7		\$1.5	\$1.5		\$2.2	\$2.2
2019		\$0.7	\$0.7		\$1.5	\$1.5		\$2.2	\$2.2
2020			\$0.7			\$1.5			\$2.2
2021			\$0.7			\$1.5			\$2.2
2022			\$0.7			\$1.5			\$2.2
2023			\$0.7			\$1.5			\$2.2
2024			\$0.7			\$1.5			\$2.2
Total	\$3.5	\$7.2	\$10.9	\$6.9	\$14.3	\$21.8	\$10.4	\$21.5	\$32.7

The editorial value of media coverage obtained has not been included as a benefit to Australian woolgrowers. The amount of media coverage obtained reflects the considerable interest that the

Campaign for Wool has been able to generate, and in this regard is a good measure of the reach obtained by the campaign. However, the impact of media coverage is to support increased retail sales of wool products which have been included in the benefits estimated above.

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 between \$3.0m and \$22.4m in present value terms⁸, depending on how much wool sales can be increased. This represents a return of between \$0.60 and \$4.80 on every dollar invested by AWI in the CFW program over the years 2010 to 2014.

TABLE 2: INVESTMENT PERFORMANCE MEASURES

Measure	5% Sales growth			10% Sales growth			15% Sales growth		
	Base	5 yrs	10 yrs	Base	5 yrs	10 yrs	Base	5 yrs	10 yrs
Present Value of Benefits (\$m)	\$3.0	\$5.5	\$7.5	\$5.9	\$11.0	\$14.9	\$8.9	\$16.5	\$22.4
Present Value of Costs (\$m)	\$4.7	\$4.7	\$4.7	\$4.7	\$4.7	\$4.7	\$4.7	\$4.7	\$4.7
Net Present Value (\$m)	-\$1.7	\$0.8	\$2.8	\$1.3	\$6.3	\$10.3	\$4.2	\$11.8	\$17.7
Benefit Cost Ratio	0.6	1.2	1.6	1.3	2.4	3.2	1.9	3.5	4.8

CONCLUSION

The pay off to Australian wool growers from the investment in the CFW initiative will be driven by the increase in wool sales achieved by retail partners and the extent to which the increased sales can be maintained into the future (after 2014) without AWI funding. Feedback from retail partners over the remaining years of the program and the consumer surveys will demonstrate what increase has actually been achieved and the extent to which consumer behaviour has been changed. If the average increase in wool sales per store is greater than 8%, then irrespective of whether or not this sales growth is maintained into the future, the investment will deliver a positive return to Australian wool growers. If the campaign can become self funding after 5 years or require a reduced level of AWI investment, the returns to Australian woolgrowers will be substantially higher.

⁸ A discount rate of 5% was used.

ATTACHMENT AWI PROGRAM INVESTMENT LOGIC

Marketing Strategy	Strategy 1 – Fibre Partnership Marketing				
Program	Program 5– Public Relations and Fibre Publicity				
Value to AWI <i>Why is AWI investing in this area? In what way will value be captured by Australian woolgrowers (metric)?</i>	The aim of this investment is to increase the demand for wool at the consumer level which in turn will increase the price Australian growers receive for their wool. This will be achieved by promoting a shift in consumer purchases away from competing fibres into wool based products.				
Target market(s)	Apparel retailers in UK, Spain, Australia, Netherlands, Germany, Japan, China and Korea. Strategy is to undertake a five year campaign with retail partners to provide increased wool promotion in their store.				
Measure <i>What could be measured to demonstrate that the value has been achieved?</i>	Increased wool demand can be measured by the annual percentage increase in wool sales of retail partners over the life of the campaign. From this figure the increased volume of wool sold can be derived. Because the program supports regular retail promotion activities the increase in wool sales will result from a shift away from sales of competitive fibres.				
Target(s) <i>For the measure selected what is the target change sought under the strategic plan?</i>	(1) Number of retail partners involved (2) Average increase in wool sales by partners to generate a positive payoff for Australian wool growers.				
Investment Activities <i>What activities have been undertaken with AWI funds to achieve the target?</i>	Marketing campaigns are tailored with each retailer, typically lasting for around 1 month each year. Other activities such as media communications, trade and consumer events and the Campaign for Wool website are also undertaken to support changed consumer purchasing decisions in retail partner stores. Engagement also supported by support from high profile people such as HRH The Prince of Wales, Colin Firth & Vivienne Westwood.				
Investments	2009/10	2010/11	2011/12	2012/13	Total
AWI cash					
AWI overheads if any					
AWI total investment	\$0.23m	\$0.82m	\$1.46m	\$1.54m	\$4.05m
Co-funding by growers					
Co-funding by others					
Gaps <i>What gaps currently exist in which AWI investment might be required in the future to ensure target is met?</i>	Lack of social media activity. Lack of interiors retail participation. Lack of structure which could help to secure additional sponsors. Display for tradeshow purposes difficult to move.				

Note: The program will also run in 2013/14.