

Wool Selling Systems Review.

Dear Panel Members.

I would like to start by saying that I think this Review is a very good initiative.
Long Over Due.

Wool is no longer a mass market commodity. Yet we are using a selling system that was designed for an age long past when wool was a mass market essential commodity.

Today wool is a speciality product, next to skin wear and high quality fashion garments. The selling system should reflect this.

My family are wool growers based in East Gippsland Victoria. We run a flock of between 3 and 4 thousand sheep depending on the seasons and time of year.

We have no knowledge of what happens to our wool once it is sold.
Who bought it?
How well did it perform when it was processed?
What was it made into?

By way of contrast we also produce cattle. These are sold direct over the hooks to Meat Processors that I know well. I could write down their requirements for you on a piece of paper. I talk to them and I am well aware of trends in the industry. I have good connections with real customers who process my product. A few phone calls will bring me up to date with what is going on in the industry and what the demand for various types of cattle is.

With our wool we have no contact with real customers. There is no communication with the real customer. Jim Maple-Brown tried to do this with his company "Fibre Direct" but once it was sold to a Stock and Station Agency it was "*Dumbed Down*". The only contact we have with other business in the supply chain is the wool broker representative.

The question that arises from this is. **Can the current selling system deliver price signals that accurately reflect the true value of the wool that we grow?**

Or, is the price we get polluted with a whole lot of other noise that has more to do with factors that are totally unrelated to the true value of the wool in the bale.

"How can we as woolgrowers produce wool that is more valuable to our customers (meaning they could pay a higher price for it) without any knowledge of what would make it more valuable to them (i.e. without feedback)?"

I am not in a position to make informed comments on the costs incurred in the existing supply chain. However after looking at the flow chart in the discussion paper I am sure that it is an expensive system and digging into this and exposing the true costs incurred can only be a good thing.

Why do we have to have so many steps in the system between the grower and the real customer? Every business in this supply chain needs to add a margin or charge for the service that they provide. This is always deducted from the price that is paid for the raw

wool. It also adds to the final cost of the product and makes it harder to sell woollen garments to retail customers.

What % of the final value of the product does the grower get? The current market signal is very clear. Wool production is not a good long term business to be in.

You also need to look at this from the wool processors point of view. I would suggest that you talk to woollen mills all over the world.

How do they manage to get supplies of the raw wool that they need?

Can they consistently get raw wool that performs to the level that they require?

What does it cost them to get it?

Can they purchase the wool that they require on a consistent basis?

How much of the cost of the wool is tied up in transaction costs as opposed to the price paid for the wool?

Why is all the demand for wool channelled through the hands of a few exporters based in Australia?

Why cannot mills based in Europe or Asia bid for wool put up for sale in Australia without having to deal with a middle man who adds a cost to the supply chain?

Wool is no longer a “*Fair Average Quality*” product. It is a “*Highest Quality No 1 Grade*” product. If ever there was a product that should be able to take advantage of being managed in a **Value Chain** then it is wool. I would suggest that the Panel engage in some communication with Mr Joe Gibson. He runs a business called Gibson Management and you can view his web site at this address. <http://www.gibsonmanagement.com.au/index.htm>. Joe has considerable experience with both supply chains and value chains.

Value Chains are all about reducing the transaction costs in the supply chain, managing all the business in the chain as one business and ensuring that there is an information flow from the final process stage to the first production stage. This information flow delivers accurate information about the quality of the product. If you have a fault at first process stage that costs \$1.00 a kg, the cost of that fault can multiply considerably as the wool travels along the supply chain. That \$1.00 cost could be \$100.00 by the time it gets to the finished product stage. A well organized value chain would send information about the fault and a price signal of more than the \$1.00 a kg so as to save the \$100.00 a kg cost at the finished product stage.

In closing I would like to congratulate AWI for setting up this review and I hope that the Panel can come up with some recommendations that will lead to some change and an improved system.