

2015 WOOL SELLING SYSTEMS REVIEW SUBMISSION

I would like to thank the Review Panel for giving me the opportunity to offer some comments and feedback on the key objective of **“Improving the returns that woolgrowers receive for their wool”**. It is critical to address this objective by going outside the matters raised in the Issues Paper so I thank the Panel for allowing me the freedom to do that also.

My name is John Coughlan and I have been a woolgrower for forty years and have a genuine bias towards my thoughts on the **declining wool industry**. I look and listen with great interest to the leadership of this industry and the systems that are in place that are creating declining returns to woolgrowers still to this very day. It is my considered opinion that the wool industry has the greatest potential of all agriculture industries but has the least chance of achieving it, due to its culture, its inability to adapt and embrace new ideas and technology. That is why we have trouble attracting young players into the industry today.

The best way to improve the returns to woolgrowers is to make the whole industry (the supply chain) stronger as a whole. In other words improve the returns to each player in the industry. The best way to do that is to put systems in place that not only achieve that but are also on going so that the whole industry is pulling in the one direction and the objective of improvement is on going. “Us” are the one’s with the problem in this industry and it is up to “Us” to fix it by coming up with solutions together instead of complaining about prices and each other. If I increase the size of my piece of cake then someone else will get a smaller piece. If however I increase the size of the cake then all pieces can be bigger and everybody benefits and everyone is happy, simple isn’t it.

For example Demand is the key driver for grower returns. Look at crossbred wool at the moment, its price is at all time highs with only three major buyers and very little spent on “Marketing”. When you create demand for a fibre all other side issues become secondary as people want that product and all players in the industry benefit.

Higher Productivity is another critical driver for grower returns as volatility is a fundamental part of any commodity price. It is how you handle that volatility that sets you apart from other commodity businesses and how you thrive in the long run. Good Risk Management is being in an enterprise that will withstand low price cycles and put money away in high price cycles.

Another critical factor in higher grower returns is by having a low cost of production. To do this one must first know their COP, therefore it is important for all growers to know and continually work to reduce their COP in their wool growing enterprise.

These all apply in any commodity business. Therefore it is paramount in the wool industry that changes are made so that Demand is always being created for wool, farmers are being skilled in becoming more productive and that the COP of farmers is always being reduced where possible. These would be driven in the industry through research and development so that not only would it be achieved but also would be on going because the pursuit of improvement is never ending.

As any good CEO worth their salt will tell you a business that grows over time is a healthy business, so when we see the production of wool shrunk by over half over time there is an example of an unhealthy business. Improving some minor inefficient practises in the wool selling system will not overcome the problem. As any good mining company will tell you, cutting costs will only take you so far along the cost curve and it can't continue forever, what we really need to do is grow our revenue. To do this we need to increase the value of wool by creating new and innovative products for now and into the future and always look at ways of improving the quality of wool being offered for sale. Over time as the value increases the price will follow (just ask Warren Buffet) and this is one of the best ways to increase grower returns. This is a far better means of improving prices over the long term and it will also be the best approach to minimising price volatility, because if consumers are confident of a guaranteed high quality product then they will be encouraged to come back time after time and pay a better price for that product.

For too long the default position in the wool industry has been how can I do less for the same outcome, how can I cut corners to get the same price. This review itself contains suggestions on how we can cut further standards. This approach becomes self fulfilling over time because as we as producers reduce the value of our product so therefore must the real price come down over time to reflect that value of that product. Therefore we are not being paid a low price for our fine wool, what we are actually being paid is a real price that the world thinks our fine wool is worth! To counter this we need to execute changes that will increase the value of our product (and not price initially). That will then enable us to start receiving a higher real price in line with the perceived value for a better product. Some examples of this are a whole industry based quality assurance scheme, full trace back accountability, recognition for growers who take extra pride in what they do and go that extra bit further.

As far as greater efficiencies and cost savings in the selling system go, all costs are woven into the price received by growers therefore are paid indirectly by that grower anyway. These costs should then be made transparent and let the free market forces determine what level they settle at over time. All players in the wool industry should be given room to innovate and be more productive and efficient and if this is always transparent then the better growers will seek out the better players anyway. Instead of being pushed into things by using a big stick we should be using the carrot approach and encouraging innovation and lifting quality standards to get the whole industry to improve right across the board. One must remember that if there is half the wool around then costs have gone up for all players of the industry, any wonder there are less buyers around in selling rooms etc., if you really want to increase the number of buyers then grow the industry !!!!

Volatility is a big part of any commodity therefore as an industry we need to learn how to better manage it rather than complain, and as I have said before the best way to manage it is to improve the quality of the product right across the whole industry. As for more competition the only way to increase that is to increase demand, simple. For a selling system to remain efficient as long as costs are transparent and free market forces are allowed to do their work then the more efficient and innovative operators will be the ones to benefit in the long run.

The reasons why “Route 1” accounts for ninety percent of wool sold in Australia is because it is the quickest way to get paid, is a very secure way of receiving payment, requires less time input from the grower, it does not take long to get test results back on your wool and logistics are normally handled by our broker. Growers are never actively encouraged to go outside of this route and are never given networks to operate in to set up these pathways so it is very difficult to embark on such a journey.

What really needs to be developed is two pathways of selling, basically “Route 1” that is in place and a “Route 2” where by growers get direct access to retailers and garment makers so that we get direct feed back on our wools and how we can improve the quality of our product. “Route 1” would be more of the same of what we have been doing and treating the wool as a basic commodity and “Route 2” would be used for participants who treat wool as a specialty high quality fibre and are prepared to make changes regularly to increase the quality of the fibre all the way through the supply chain.

As things stand at the moment, broker farm visits are integral to getting feedback on market requirements for classing standards, buyer preferences, and current price signals for different parts of our clip. There is a distinct lack of networking between all players in the wool industry therefore the broker is our contact to the greater industry in general.

Paperwork and bale branding are very slow to be improved through the use of new technology and therefore a bare minimum effort is usually the norm in industry participation and standards. The fact that China is taking eighty per cent of the wool clip has only helped the industry treat the wool fibre as a common commodity and therefore lowering industry standards and expectations across the board.

AWTA testing works for me because independent results do not take long to get back to the grower and do so via a website. Testing should always be done independently and off farm so full confidence is retained by all players in the industry. Also testing standards should always be improved where possible to ensure no mistakes occur at point of processing. Any trait that affects quality should be tested for so that any information that can be objectively obtained to prove that our fibre is of the highest quality should be undertaken to again help our industry as a whole because it is simply the right thing to do for our whole industry. This applies to any test that is to be considered, if it benefits the whole industry then it should be introduced. That is why a round table committee should be formed involving all players of the industry and meet regularly to meet the one objective, **How can I make changes that will benefit the whole industry and not just myself ?.**

With price realisation, increasing demand and growing the industry are the two key issues in this area. “Route 1” could be further refined but “Route 2” should be created with industry led innovations such as a quality assurance scheme, wools sold with a story behind them to tell the world that growing wool just doesn’t sustain the world and its environment but it actually enhances it, it is grown by Australian families in a healthy and safe way, etc, etc,. These programs must be implemented by the whole industry for all growers not on a broker by broker or buyer by buyer basis which is why a lot of programs fail in the long run.

I do not think all costs incurred by the wool grower are transparent. After sale charges for example should be displayed at a central point so we as growers know the total cost we are charged for selling our wool. If the cost indirectly affects our final price then we have a right to know what it is.

One good reason why forward selling of wool has a low take up is that our specs can change so easily over time. What this does if we forward sell is introduce another variable into our business and so we are effectively taking on more risk, so it is actually risk mismanagement. We cannot guarantee all of the specs of our product at a future date, simply because it is out of our control.

In summation I would like to see a governing body set up involving all players of the industry all regularly meeting for the one objective, **How can we improve the profitability of the industry as a whole by lifting standards in the industry.** After all Culture comes before Strategy, therefore we all need to improve our attitude in the industry by putting the whole industry's needs first before our own and thereby changing the culture of the industry for the better. A system must be put in place so that the pursuit of a more efficient selling system is always being achieved and therefore would eliminate any more of these reviews !!!!

I would also like to see two routes of selling set up. "Route 1" would be for those who want to continue as is with minimal input, cutting costs at every opportunity and not having wool as their top priority (meat sheep for example), and treating it as a base commodity. Then there would be "Route 2" that could still involve all players but all pulling together to improve the industry because it is the right thing to do, not because it will give you a higher price or not. This would involve industry led initiatives to lift the industry quality standards and also bring the whole industry closer together and networking so that changes would be implemented that would lift the standard of the whole industry.

Finally I would most of all want see a body set up in the industry that would have as its main objective **To see the industry grow and prosper by adapting to the modern needs of the consumer so that people see a need to buy wool.** It would have a supply chain approach rather than a simple retail demand approach. This would be achieved through the adoption of new technology, innovation and product development that would be on going. A team based on business skills, ingenuity and entrepreneurship that would attract young forward thinking minds back into the wool industry and take it from the bottom to the top.

At the start of this submission I stated that I had a genuine bias and I will now declare that bias. When most experts and participants get up and talk about the wool industry it is because it is their job, but when people like myself get up and comment on the wool industry it is about my livelihood ! After all, I do not want to survive in this industry, I want to **Thrive** in it!

I thank you for your time,

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