



Submission To

AWI WOOL SELLING SYSTEMS REVIEW (WSSR)

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OVERVIEW

The WSSR discussion paper identifies that the review is in its early stages of 'fact finding' and consultation stages. The paper briefly explores a number of previously trialled initiatives and seeks updated commentary on the viability within the current environment.

There are also issues identified by the paper that may be described as operational rather than structural. Additionally, some issues have clearly been explored more than others and it has been assumed that this has been done to generate discussion and not to guide priority.

Within this potpourri of issues and options, it is therefore expected that the review team has the initial requirement to identify the:

- a) Zombie Projects - those initiatives that will not die.
- b) Cryogenic Projects - those that were 'put on ice' waiting for the appropriate environment.
- c) Trophy Projects - what can be done to show success?

This submission is structured such that our key points are summarized and provided in the initial sections. Those who wish to explore further may access subsequent sections of the submission.

The first section provides a forwarding looking focus with a brief overview of several proposed initiatives. Symbotic has proposed recommendations for further research to ensure the decision making process is within the appropriate knowledge-base environment.

The second section briefly addresses each of the specific queries identified in the WSSR discussion paper. These are expanded upon in the subsequent section.

The third section is more detailed and concerns some of the immediate operational issues identified by industry sectors, or those specifically highlighted within the WSSR discussion paper.

The last section provides some commentary on basic assumptions and more general issues.

In all cases our submission is cognisant of the priority being afforded to the wool grower and avoiding introducing further barriers of entry.

Symbotic Pty Ltd is a service provider to the industry and therefore we will not be proposing any significantly new or structural change proposals, merely meeting the reports intended purposes of seeking background comment and support material.



SECTION I

1 RECOMMENDED FOR FURTHER RESEARCH

To assist the WSSR review, it is recommended that further research be undertaken in the following areas to provide for a longer view than that immediately presented in the discussion paper.

1.1 Nano Technology - this technology has the potential to significantly alter supply chain dynamics. Some 10 years ago researchers proposed what structural changes were likely to occur with the advent of such technologies. In 2011 the CSIRO published an updated paper on elements of these developments. Hence, it would be beneficial to review those likely timeframes and projected impacts. Since the release of the WSSR discussion paper a number of initiatives have been publicly reported that many may become redundant should innovations in this area be adopted. The WSSR discussion paper frequently refers to accommodating the 'bread and butter' wool selling path and it is these very same markets that are likely to be the target of such developments.

1.2 Information Technology - WebRTC & Internet of Things (IoT) - The wool industry was once the world's leading electronic trading environment with more than 95% adoption rates in key sectors. Wool buyers have been using mobile devices to assist in the valuing process for more than 15 years. These 'apps' are now being trialled using visual technology, geo-location features etc. However, there has been a comparative failure to significantly expand this area of innovation to the producer. Recently growers have been involved in using social media tools - e.g. Twitter - to integrate with the auction room sale process. However initiatives such as WebRTC and IoT may 'leap-frog' that work. IoT projects such as that currently occurring within Tasmanian agriculture, in conjunction with CSIRO, IT specialists etc. may provide guidance for the wool industry. Agriculture and in particular wool, has always been a cooperative and 'social' industry where working jointly for the benefit of the whole industry has sometimes been misconstrued as a lack of competition.

1.3 Information Technology - Data - producers are starting to better understand the value of their data and the marketing opportunities collection provides. Drones, transponders etc are now being considered as part of wool grower's equipment/machinery/arsenal. Whereas previously this was left to parties 'down the chain' and adoption rates influenced by skewed benefit profiles. If guidance can be taken from other industries then further work is required to determine the ownership and value of such data.

1.4 Risk Benefit Perception Profiles - a number of past industry initiatives have provided skewed benefits. That is benefits have not been proportionally transferred back to the grower or end-user. In an industry where price differentials can be opaque it can often be difficult to justify a projects cost where grower benefits cannot be objectively delivered or demonstrated. In this environment of a potpourri of options one simple technique for prioritizing projects is to involve all industry



sectors in a Monte Carlo simulation exercise where initiatives are evaluated for both benefit and risk. An update of the Monte Carlo supply chain risk-benefit models is therefore proposed.

1.5 Sale by Description SxD - when we were involved in work on objective measurement, sale by measurement trial (SAM), electronic selling etc. it was always with a longer term focus. While SxD may not have been then supported by the industry, work was still conducted on what operational conditions were required. Hence the minimum specification of wool (Minspec) project, which among other things, evaluated valuing 'at the grab'. A quick review of that work would infer far less favorable conditions than that operated at that time. In 2006 a more focused trial further confirmed those initial findings. While there are many contentious elements of a SxD selling system one of the most basic is the specification of non-objective wool characteristics. We now have a more fractioned wool typing environment than that operated during those Minspec trials where now brokers largely type for valuation purposes, AWEX for market reporting, buyers for commercial needs etc. The then major hurdles for appraisal repeatability are now likely to be of more concern. If SxD were to be expanded beyond its current adoption rates, and ignoring issues such as liability, then appraisal repeatability trials/training could be re-instated to test the viability of withdrawing a sample, impacts of reduced samples, grower typing etc.

1.6 AWTA Data in Growers Hands – for decades selling methods have been developed to enable greater grower participation. A significant impediment for such developments has been access to raw wool test data and catalogue data. The wool industry is heavily dependent upon the provision and transfer of electronic data. As such the industry was once recognised as a leader in eCommerce and data modelling. Yet the 'spread' of data has not been proportionally developed. We submit that not providing such data to growers restricts the grower from accessing alternate selling methods and improve quality control over pre-sale data. The advent of efficient data transfer mechanisms – e.g. social media tools – may suggest a review of this 'constraint'. This is not suggesting the grower acts without the support of a broker, vendor agent etc. but puts valuable data into the hands of the producer.

1.7 Transparency & Publishing Costs - As discussed in this submission a cost reduction focus does not always result in income maximisation. However, cost transparency has been highlighted in the WSSR discussion paper. Therefore, if costs were to be a key focus then consideration could be given to creating and 'Choice' type facility where costs could be widely publicised, especially where they are as opaque as the discussion paper implies and this submission demonstrates.

1.8 Electronic Selling, Centralised selling etc. - Of recent times there has been much discussion regarding these developments. It is our opinion that these are now more operational issues and best commented upon by those more directly involved in the exchange of ownership. The WSSR paper implies a direct link between centralised selling and in-room competition. The review process may therefore be assisted by consideration of developments such as NSW and NZ wool being offered in Melbourne to quantify the direct benefits delivered to wool growers. It has been



argued that the continued commercial operation of this selling option suggests growers are being provided with indirect benefits it has also been argued that increased competition is not necessarily one of those benefits. Additionally:

- 1.8.1** More direct benefits to the grower needs to be demonstrated than has occurred for other developments.
- 1.8.2** Developments should not introduce any further barriers of entry to the market.
- 1.8.3** Careful consideration needs to be given when attempting to artificially stimulate an environment and commercial operators should be allowed to continue initiatives in accordance with market needs and conditions. Attention should be directed to reduce those barriers that exist, which impede these developments, especially where those barriers have been created by 3rd parties.



SECTION II - WSSR PHASE QUERIES

This section briefly addresses many of the direct queries published in the discussion paper. These queries are then expanded upon in the following sections.

The WSSR discussion paper often proposes queries that relate to functions and roles that are implied to be mandatory. Whereas a possible alternate approach to a selling system review may have been to focus on the core requirements for a direct sale transaction between a wool grower and a buyer.

The interdependency of many of the issues and proposals submitted in the review paper is not sufficiently apparent.

Even in a broad sense, the costs, benefits and disbenefits of initiatives has not been attempted. Hence our proposals to undertake a risk benefit perception analysis to assist in scaling and prioritising.

Before each of the WSSR issues paper 'phases' are considered below it may be appropriate to re-visit the current selling system just in case any casual reader of the WSSR paper interprets that nothing has changed in 20 years. Specifically concerning the common themes of sale by description, electronic selling, and number of buyers/centralized selling etc.

Briefly:

Sale by Description – a number of organisations who buy in the auction room effectively operate in a sale by description mode. These organisations collect electronic catalogue data, use historically clip data, broker lot types – noting that AWEX types are not available pre-sale – and wool performance models to value wool and determine purchase requirements. Typing of wool is not constrained to organisations such as AWEX or brokers. Professional valuers are also used and in an expanding manner. These types and valuations may, or may not, be performed on a showfloor but may be considered as commercially valuable by certain organisations.

Number of bidders 'in the room' – the above mentioned organisations may also be represented by 3rd parties to bid for lots, possibly a contributing factor in the reduction in the number of physical bidders. They may choose this mode of operation to enable a far more detailed analysis of the real-time auction/market data rather than have a physical presence in the room. Most buying organisations will have direct real-time 'data-feeds' back to other parties to analyse the market and to adjust purchase requirements. The direct market feeds may include data provision to a number of market sectors, including growers via social media etc. The number of buyers physically present may also be due to the impact of the requirement for buyers to adopt and maintain sophisticated electronic selling support systems.

Electronic Selling – the more traditional approach to any electronic selling system had been to 'dump' all the systems and features into one mechanism/facility. The current approach for any advanced system is to enable buyers to develop systems that meet their individual needs which feed into a central 'bank'. Hence today's buyers use mobile 'apps' to value wool as the printed catalogue does not provide all the data necessary and available to support a buying operation. Real-time interactive systems are used 'in the room' to feed data back to head-offices, mills etc. to monitor purchases, adjust limits, report the market etc. These systems may be used by contract bidders to buy for a number of organisations/clients. What may be missing is the grower engagement? In a similar manner to buyers updating their buying limits in a real-time mode, where are the growers adjusting their reserve prices in real-time mode – something many parties would see as a retrograde step with respect to efficiencies but an understandable request.



Removing the Sample/Showflow – many buyers have inferred that they pay for the showfloor and facilities through the PSC and a high degree of cross-subsidisation occurs with the provision of such facilities. Of course the sample showfloor is used for more than just buyers. While previous studies have shown that the likely reduction in PSC, or direct grower benefits, do not outweigh the increased risk exposure it may be worthwhile revisiting what those direct benefits are currently estimated to be.

PHASE 1 WOOL PREPARATION

The Review Panel is seeking feedback on the farm visitation process conducted by the wool broker and wool preparation and classing practices.

•Are the direct costs incurred by the wool broker in conducting these visits considered to be part of the broker service charge (BSC) incurred by woolgrowers post auction in the account sale? And, if so is there scope for a “user pays” component should the woolgrower not require this level of service?

•During the farm visitations is the wool broker able to provide the woolgrowers and/or classer with recommendations on how best to class and prepare the wool to meet with current customer requirements? Or is the classing advice designed to meet with the AWEX “Code of Practice” for classers?

•To what extent are the wool brokers providing woolgrowers with information they already have? Do wool brokers have an expert understanding of market developments and implications for sheep husbandry and wool production?

•Is there scope for the wool broker to provide additional services during the farm visitation?

P1 RESPONSE

P.1.1 With respect to wool preparation, refer to our notes on nano-technology.

P.1.2 Not all wool sales are via a broker or involve a BSC.

P.1.2 Our submission proposes that a grower has the option to have a BSC as little as \$10/bale. It may be argued that any additional fees are already largely ‘user pays’.

P.1.3 The application of a ‘Code of Practice’ assumes a predefined selling mechanism; or at least the adoption of a conservative approach to ‘keep all options open’.

P.1.4 Our submission implies either there exists insufficient incentive for 3rd parties, insufficient price signals, apathy etc. which all contribute to a poor information transfer environment.

P.1.5 Dangers exist where attempts are made to design a selling system to primarily meet the ‘path of least resistance’ or lowest common denominator.

PHASE 2 DELIVERY AND TESTING

The Review Panel is seeking input on the process of local cartage, sampling and testing.

•For a woolgrower to receive a fully certified AWTA test result on their wool they must first have delivered their product to a wool broker’s store that has AWTA certified core and grab sampling facilities. Would there be any commercial benefits to the woolgrower in knowing their final test results prior to delivering their wool to a broker’s store?

•Is there a more efficient logistical process for conducting the testing compared to the current core, grab, tuft sampling, and sample movement process?

•After the wool is sold at auction, who retains the box sample? Is there an industry standard procedure for this?

•Can AWTA testing be performed on-farm or at another regional location of the woolgrower’s choice if such alternatives are preferred?

•AWTA currently tests for a multitude of measurements including micron, vegetable matter (VM), yield, length, strength, CVD, CVH, position of break, wool base etc. Are there additional characteristics AWTA should test for that would enhance the objective description process and possibly open up alternative processes for the sale of wool?

P2 RESPONSE



P.2.1 Not all fully certified AWTA IWTO certificates are generated via coring and testing in a brokers store. A registered test site may be a contractor, wool dump, transport company etc.

P.2.2 Not all wool is sold with a test certificate. In fact a significant proportion of first hand sale transactions are undertaken without a test certificate; far more than inferred in the WSSR paper.

P.2.3 Not all data on an AWTA test certificate is certified.

P.2.4 There are a number of options for a grower to obtain test data - subjectively, objectively, IWTO Certificate and AWTA Report Testing, on-farm, 3rd party stores etc. An individual selling method does not mandate an exclusive test method.

P.2.5 The current 'logistical process' associating with obtaining an IWTO certificate is also designed to meet efficient post sale activities - shipping, efficiency in financial processes etc.

P.2.6 In most cases a woolgrower should have the tools and resources available to determine which broker/agent/dealer is best suited to market their wool. If not, the expanding vendor advocacy service should be encouraged.

PHASE 3 WOOL APPRAISAL

The Review Panel is seeking input on the item of wool appraisal and valuation.

- *Can any efficiencies or cost savings be achieved within the appraisal stage of the wool supply chain through some consolidation of the three forms of inspection? For example, why not just have the AWTA apply an AWEX type rather than have the wool broker and AWEX both complete this task?*
- *Can a combination of AWTA test results and a singular, industry accepted valuation standard provide an online platform for wool to be appraised and valued? If so what efficiencies and costs savings (if any) can be achieved?*
- *To what extent is physical inspection a necessary element of appraisal and valuation? Would the woolgrower be disadvantaged by relying solely on appraisal and not displaying the physical wool sample?*
- *Should the industry be seeking to achieve a wool selling system based entirely on sale by description? Are multiple systems needed to address diverse buyer needs?*
- *Could woolgrowers exercise more discretion in the type of tests performed on their wool in order to save costs?*
- *Does the information provided on the showfloor meet buyer needs? What, if any, additional information would be useful? What information could be dispensed with?*

P3 RESPONSE

P.3.1 Of course growers, classers etc. could also be included as potential appraisers. As described in this submission developing such a system for traditional sectors has proven difficult.

P.3.2 Our submission suggests that the environment for 'valuing at the grab' is far less viable than when we analyzed the extensive MINSPEC appraisal repeatability trials; or subsequent more focused trials in 2006. It may also be argued that the broker and AWEX valuing has 'moved' further away from the application of commercial types than existed during those trials. Additionally it should be noted that the industry has failed to enable existing types - whether broker or AWEX - to be made available, pre-sale or post sale, to growers or buyers to enable monitoring towards such an environment. Greater efforts should be made to make such data available pre-sale, for commercial evaluation, before any suggestions of wider adoption rates.



P.3.3 Most schemes are designed for their sector alone. We now have fragmented system and significant work is required to design a supported multi-sector typing operation.

P.3.4 A growing proportion of the clip is sold by description. Wider adoption rates are largely based on issues such as reliability, confidence levels, claims, etc. The acceptance is often based on who rather than where a type was applied and the commercial confidence levels behind that type.

P.3.5 The determination of which tests are to be performed is largely based on an grower or agent's advice. However in many cases the 'conservative' approach is often taken to not limit access to certain markets. Of course this does not limit a buyer from post-sale testing of lots.

P.3.6 As proposed in our submission, data storage and transfer is relatively cheap. The more the merrier. The buyers are the major marketers of wool data and frequently provide mills with pre and post-sale market data, commercial historical clip data. It is dangerous to attempt to predict what future data is required; better to save everything and then extract what is required and when.

P.3.7 There is a significant proportion of what many consider valuable data that is currently withheld from the buyer – e.g. owner, classer, AWEX type.

PHASE 4 PRICE REALISATION

The Review Panel is seeking information and evidence on the effectiveness of the current open cry wool auction system as a mechanism for competitive and cost effective price realisation, in particular:

- What other selling alternatives exist for woolgrowers in the market place today and how do the selling costs to the woolgrower compare to the traditional auction method? What other methods are worthy of investigation?*
- Do or could other selling alternatives generate a comparable or greater level of competitive tension at the point of price realisation relative to traditional auction?*
- If the auction system delivers the highest level of competition for growers' wool are there more cost and time effective methods that would ultimately benefit the woolgrower (for example: online selling) and would these savings be passed down to the woolgrower?*
- The present auction system is dominated by exporters purchasing wool on behalf of their clients. Is there further potential to shorten the supply chain and involve downstream interests earlier in the ownership of wool with a view to removing or reducing costs?*
- The Panel understands that due to a reduction in weekly auction volumes a number of exporters no longer employ a full time wool buyer in each wool selling centre of Australia. This has resulted in a number of commission buyers holding multiple buying limits from a number of exporters. Against this background, is it well known whom a commission buyer is acting for in respect of individual purchases? Do commission buyers confront any conflicts of interest in their purchasing decisions when buying on behalf of clients with similar interests? What effect (if any) do such issues introduce with respect to competition for a woolgrower's wool? Is there a need to cap the number of clients one commission buyer can buy for?*
- Are stakeholders able to draw examples of previously attempted selling alternatives and reasons for their lack of adoption to the Review Panel's attention?*
- Are auction results communicated in an efficient and timely manner to market participants and thereby enhance the dynamics of the price discovery process? Why is it necessary for AWEX staff to attend auctions to record information for their market reports? Couldn't this information be automatically generated at lower cost?*
- Are the auctions basically the same in each of the three major selling centres, or do they differ in some respects? Are there transparent rules governing the conduct of auctions? Do auctions in the different centres generally realise similar outcomes for the sale of specific wool types?*
- Are there barriers to entry or other impediments impacting participation at Australian wool auctions? Could those barriers or impediments be reduced by adopting alternative processes? What are the key requirements and/or costs applied in order to participate?*

P4 RESPONSE



P.4.1 Our submission highlights that the AWI web site reports at least 11 different selling methods available to wool growers. As a generalisation each carries the same cost to both the grower and buyer. This degree of this cross subsidisation is not known.

P.4.2 It is relatively easy to demonstrate that the open-cry auction system provides the grower with the greatest level of competition and least barriers of entry.

P.4.3 The auction system maybe the preferred broker selling method due to it being least cost selling option for mass sales, but also there are a number of structural issues with promoting alternatives. For example until recently some auction sale methods were placed at a disadvantage in EDI transactions, market reporting. AWEX support etc.

P.4.4 Our submission proposes that consideration be given to a more efficient commercial based type application be developed for market reporting. It is not known what the report is implying when suggesting AWEX 'attend auctions to record information'?

P.4.5 Our submission proposes that the number of buyers in the room should not be construed as a lack of competition. Today's auction room is far more competitive and complex than that which existed 20 years ago.

P.4.6 Careful consideration needs to be given to the commercial implications of reducing selling centers. Some mills still receive data implying Launceston sales - to obtain price premiums! So clearly end-users will apply price differentials for both sale centers and storage locations - especially when there is little industry control of location data such as 'area of origins'.

P.4.7 One of the attractions of the open-cry auction system is the reduced 'barriers'. On any day an auction can consist of both AWEX and non-AWEX 'controlled' sales, with catalogue offered on behalf of 3rd parties, dealers, grower bodies etc.

PHASE 5 INVOICING AND PAYMENT

The Review Panel is seeking information on the post sale invoicing process and the various charges.

- In what proportions is the Post Sale Charge (PSC) borne by the various participants in the supply chain? For example, is the cost incurred by the exporter reflected in the price paid by the overseas customer? Or is it taken out of the initial price they bid at auction for the woolgrower's wool?*
- What services are provided by the wool broker to the woolgrower that are covered by the Broker Service Charge (BSC)?*
- What services are provided by the wool broker to the buyer that are covered by the Post Sale Charge (PSC)?*
- Are all costs incurred by the woolgrower sufficiently transparent (ie. are they generally known and publicised prior to the sale of wool?)*
- Is there potential for a more detailed breakdown of the individual selling and buying costs of wool to be made available to woolgrowers to facilitate more informed commercial decisions regarding the sale of their wool? Is there a need for an industry standard invoice or account sale format?*
- Given a move to a more transparent invoicing standard, would there be a demand for the broad introduction of a tiered wool broker service/price offering, such as: Premium, Standard and Basic?*
- Could there be any material benefits to woolgrowers by extending the exporter's payment period for wool from the existing 7 days prompt period? (ie. would this free up additional working capital that could be applied to create increased competition at the point of price realisation?)*

P5 RESPONSE



P.5.1 Our submission attempts to highlight the many issues associated with the rapidly increasing PSC and the lack of transparency. However it is not only the PSC where costs have risen far beyond CPI. Other costs include the mandatory charging of storage, bale marking charges, mandatory costs associated with the release of wool etc. which all contribute to costs. The grower always pays - directly or indirectly.

P.5.2 A single page of a catalogue may have a different PSC for each lot and each buyer may have an individual PSC. Without access to electronic data how these variations are able to be 'published' back to growers is unknown.

P.5.3 Not all wool is sold on 7 days prompt. It was only relatively recent that 7 days was introduced. A 7 day prompt does not mean access to the wool can be obtained within that period and without additional fees.

P.5.4 It is unclear what is meant by a more transparent invoicing standard. The current system is largely dictated by legislation. The post-sale process involves an invoice between the grower and buyer of the wool and an invoice between the broker and buyer for post-sale services (PSC). The broker is more often than not the owner of the wool and therefore is merely invoicing on behalf of a grower. For efficiencies, both may be electronically transmitted at the same time. Not all buyers pay the same PSC cost for the same broker. A buyer can - and does - arrange private commercial rates for various agreed services levels; as is the case for any commercial arrangement between two parties. The option for 'premium, standard and basic' services exists today.

PHASE GENERAL

The Review Panel is seeking information on the following areas that do not fall within the 6 phases of the selling process referenced in this paper but relate directly to the overall scope of the Review.

Wool industry institutions

- AWEX undertakes a variety of tasks, including market reporting and ensuring accuracy in wool description, that help the wool market to perform efficiently. In a similar vein, AWTA supports market efficiency by providing critical data describing the range of wool characteristics. Would there be advantage in combining the activities of AWEX and AWTA?*
- Is there an opportunity to increase competition in wool testing services currently provided by AWTA?*
- Should woolgrowers be able to nominate what tests they would like performed on their product and pay accordingly for the services provided?*
- Are there other changes to the institutions serving the wool industry that would reduce costs or enhance returns associated with the first exchange of wool ownership?*
- Talman Solutions provide the majority of wool exporters and a large number of wool brokers with inventory management IT systems. Do the systems provided by Talman Solutions generally meet the requirements of their customers? Is there potential for greater competition for this service offering within the wool industry?*

PG1 RESPONSE

PG1.1 AWEX plays a significant independent role in the wool selling chain. It would be doubtful if any 'efficiency' gains would outweigh the loss of that AWEX independence status by AWEX combining responsibilities with a commercial organisation.



PG1.2 As our submission suggests the first exchange of wool ownership is generally not the focus of the discussion paper - it should be! The ownership status of the wool is not known by the auction buyer, AWEX or AWTA.

PG1.3 When undertaking a review such as this it would not normally be expected that direct reference would be made to an individual service provider. However, as an IT service supplier to the industry, for more than 20 years, we feel compelled to respond. We offer the following in response to inferred criticism:

- There needs to be a clear distinction between the issues relating to the independent commercially sensitive role required for the provision of data network services - for the industry at large - and that of application software services - for certain organisations.
- The 'industry' has consistently demonstrated a desire to maintain a single supplier for primary network services. Over the years the 'industry' has had a number of opportunities to dramatically reduce operational costs. For example, free network costs. On each occasion the 'industry' has chosen to maintain the status quo and a willingness to bear these premium costs. As this is not an approach adopted by most other industries it is possible another review could be undertaken.
- When benchmarked against other comparable industries, the wool industry proportionally allocates significantly less towards IT services. This path has led to the 'industry' infrastructure being extremely exposed and should be of significant concern.
- The wool industry has chosen a preferred model whereby a very large proportion of IT costs are for support services, rather than the provision of application software. In other words it prefers the software provider to bear the risks.
- Wool industry software costs can be acquired for as little as \$500. However, network data can be 40-50 times that amount, per annum!
- If the 'industry' desires an environment where a more open environment is allowed to flourish then a change from the single supplier philosophy is required; or alternatively, revisit the many invitations from major IT players such as IBM and their partners.

AWEX market reporting

- *Does the AWEX market report meet the needs of both the buying and selling sides of the market and if it is deficient in any way, how should it be amended?*
- *Is there sufficient access to AWEX market information?*
- *What influence (if any) does the AWEX market report have on purchasing decisions made by overseas wool processors when negotiating with Australian wool exporters?*

PG2 RESPONSE - our submission:

PG2.1 Suggests that while normalised generic market reporting has a role for longitudinal reporting, detailed analyses are generally best performed by individuals using commercial data from organisations such as exporters; often for specialised markets.

PG2.2 Identifies significant concerns whereby some market reports provided by organisations such as AWEX can be interpreted as containing data - such as - actual invoiced value for a lot. It does not! To imply such commercially sensitive data - price and buyer - is invoiced data can significantly interfere with commercial relationships.

Centralisation



- *What are the benefits and costs of any move to centralise the sale of wool? Would centralisation provide increased opportunity to conduct alternative processes for the selling of wool? What impact would centralisation of wool selling centres (Sydney, Melbourne and Fremantle) have in relation to cost reduction and competitive tension for woolgrower's wool?*
- *What financial impact would centralisation of wool storage centres have on the exchange of ownership process?*
- *Did previous studies on centralisation identify tangible financial benefits within the exchange of ownership process? And if so what were the barriers to progressing with centralisation?*

PG3 RESPONSE

PG3.1 Our submission suggests the industry has not been able to demonstrate any direct tangible benefits to the wool grower for previous centralisation initiatives; nor any increases in any 'competitive tension'. Third party organisations may have been able to reduce costs, and some entities increase costs, but net direct benefits to the wool grower have not been adequately demonstrated. Hence our submission identifies the danger in skewing benefits.

PG3.2 It may not be that there is a primary desire to identify 'barriers to progressing with centralisation' but the reverse may be true. The solution is still trying to find a problem.

Digitalisation

- *Can Australian wool be appraised without physically handling a wool box sample? And if so would that appraisal be accurate enough to allow an exporter or processor to deliver wool in accordance with a specific mill or customer's requirement?*
- *Can price realisation between the seller and the buyer be achieved via an online platform whilst still maintaining a comparable or improved level of competition for woolgrower's wool?*
- *What cost saving benefits can be achieved by online appraisal and or selling? And who would benefit from it?*
- *Why have previous attempts at the online selling of wool failed?*

PG4 RESPONSE

PG4.1 Electronic selling systems, currently in use by buyers, are virtually mandatory in today's auction environment. These systems are developing more rapidly than online systems.

PG4.2 It has been reported that previous attempts to introduce an enforced 'online' selling system have failed - in part - as a result of attempting to apply a template solution from another industry, failure to understand the requirement of buyer, speed, cost etc. However, online selling systems are available and 'alive'; and have found a market. Commercial interests will see these systems evolve and expand. The danger is they may be enforced on a market whereby a skewed benefit is delivered.

Transparency

- *What scope is there to allow woolgrowers to make better informed decisions in relation to what it is costing them to sell their wool? More specifically would greater understanding of the costs and returns reflected in their final price received facilitate improved commercial decisions concerning their own wool growing enterprise?*
- *To what extent does the woolgrower understand their own cost of production before their wool leaves the farm gate? Is there scope for a greater understanding of both production and selling costs to facilitate more informed commercial decisions for woolgrowers?*

PG5 RESPONSE - our submission:



PG5.1 Recommends growers have far better access to data that is presented for the sale of their wool.

PG5.2 Recommends the establishment of a 'Choice' type of web page that regularly reports and reviews, options and costs.

Selling alternatives

• *Whilst there are numerous selling alternatives to traditional auction that are made available to woolgrowers they can generally be grouped into five categories – Direct selling, Private buying, Physical forwards, Forward Basis contracts (cash settled against micron indicators) and online selling (currently performed by Auctions-Plus). The table below illustrates the process flow and relevant costs of each selling avenue.*

• *The table suggests that in all cases the alternatives to traditional auction present fewer stages and more potential cost savings compared to traditional auction. Yet more than 90% of Australian wool still sells by traditional option. Why has there been minimal woolgrower adoption of these alternatives?*

• *Are there up front cost savings offered to the woolgrower by the wool-selling broker to use these selling alternatives?*

• *Does the industry have the necessary skills, knowledge and expertise to utilise these options?*

• *Are there training initiatives the industry should examine to enhance the skill base necessary for uptake of alternative marketing options?*

• *Do the above selling alternatives provide the same level of competition for woolgrowers' wool as traditional auction?*

PG6 RESPONSE - Our submission:

PG6.1 Proposes that when focus is given to grower first hand sale transactions, the 90% traditional auction figure is overly optimistic. The difference between 50% and 90% is often attributable to commercial organisations offering their own wool by choosing the auction system as that which will achieve the best returns. Growers may take advice from those 'downstream' commercial traders.

PG6.2 The alternative view is that the organisations directly responsible for representing the grower interests have not adequately performed their role.



SECTION III – OPERATIONAL ISSUES

Really- you have got his far?

This section addresses more of the operational issues identified in the WSSR discussion paper. Initially providing commentary on specifically identified issues such as:

- Tension in the room
- Transparency and the Post Sale Charge (PSC)
- Data - the lifeblood of an industry.
- Charges & Equity
- Selling Costs

2. TENSION 'IN THE ROOM'

The WSSR review paper implies that the number of bidders in a sale room creates a perception of lack of competition. Tension is referred to only with respect of the number of bidders and centralisation.

There is a significant difference between a contract bidder and a contract buyer. Today's buying systems have degrees of sophistication that would easily expose any 'easing of competition' in the bidding war and would rapidly be exposed and contracts ceased. It would not be difficult to demonstrate that the current sale room provides a far more competitive environment than that which operated some 20 years ago - despite that there are now fewer 'physical' buyers present.

It would benefit other industry sectors to understand the sophistication of these contract bidder systems which are significantly more advanced than many other sectors and yet largely ignored from the WSSR paper.

It is assumed that the review process will also address the more direct 'controllable' issues surrounding competitive negotiations when growers are selecting – say - a broker, carrier, test house etc.

There are significant dangers in attempting to alter a selling system that reduces this openness and competitiveness.

3. TRANSPARENCY & THE POST SALE CHARGE (PSC)

PSC costs have been under the spotlight for a number of years and provides a good example of the problems with cost transparency.

It was not that long ago when this was referred to as the delivery fee and was less than \$4/bale. Now it can include a wide range of 'services' and be as much as 10 times that original delivery fee. It is often heard that "to get a bale of wool out of a broker store is 5 times more expensive than to ship it to China".



It is not uncommon for an industry to have a charge such as this, for example, an art auction or car auction. However the norm is that this charge is known to the seller, well published and consistent across all lots sold.

In the wool industry each lot on a single catalogue page could, in theory, have a separate PSC cost!

Buyers are required to have complex bidding algorithms to accommodate for such costs to adjust bids - paying premiums and discounts based for each lots PSC. It is not difficult to understand why the grower may find this a complex issue to understand and why these costs are excluded from market reporting and quoting systems.

So why have this complex situation? Let's look at the following fictitious scenario.

A broker entices a grower to sell via their catalogue by offering a \$5/bale discount on brokerage. To compensate the broker may simply add \$5/bale to the buyers PSC! The additional 3c/kg price differential (\$5 for 170kg) that the buyer needs to allow is often indistinguishable to the grower. Worse, some buyers may not even be aware of those additional PSC costs.

Despite the above scenario being operational for a number of years why has there been no awareness among growers? Have all the parties - or at least those that directly represent the grower - failed in ensuring a maximized grower return?

These rising opaque costs to the buyer need also be considered alongside issues such as:

Rising mandatory freight costs – in additional to the PSC a buyer may be required to pay for freight to deliver the wool 'across the road'. In days gone by the post sale delivery charge provided 'free' delivery to a local destination or the broker provided a rebate for freight.

Rising mandatory storage and marking fees - the buyers are increasingly required to pay for broker storage and marking fees even when payment has been made prior to prompt date and no bale marking has been requested.

Funds clearance lead times increasing from 48 to 96 hours despite advances in electronic funds transfer.

All these increased costs which are being borne directly by the buyer are therefore indirectly passed back to the grower via price differentials 'in the room'. Why has there not been a greater effort by the growers to reduce these costs? Maybe the answer is in where the discussion paper suggests some of these issues are not as transparent as necessary. Maybe there needs to be more widespread knowledge of the costs. A 'Choice' type published independent reporting and evaluation of these costs may be required?

4. DATA – THE LIFEBLOOD OF AN INDUSTRY

There are numerous examples of too lax an approach to data. Much of this data is directly impacting on price and therefore borne by the grower.



As an example, we may have a look at mulesing. When buyers collect a sale catalogue their system usually compares forthcoming clip catalogue data with historical sale and valuation data. Too frequently it is reported that a clip has no mulesing indicator when history highlights the likelihood. In many situations the provision of such status has a direct tangible price impact. The price impact being far greater than many cost saving measures being considered above! The 3rd parties involved in the recording of such status appear to be indifferent to the price impact. It has also been argued that as this information is not - can't? - be 'market' reported then the importance is not as apparent as it should be.

There are other many such instances where price differentials impacts are not treated with grower impact as a high priority.

As recommended grower pre-sale access to catalogue data may benefit the quality control process.

5. CHARGES & EQUITY

In many cases costs within the chain have a largely fixed cost bases - e.g. warehouse costs, dumping machinery, sale room space etc., whereas most sector charges are quantity/price based.

In many industries this leads to cross-subsiding. In some industries levies and charges may also reflect a deliberate skewed charging mechanism whereby the more price sensitive group are charged less than the more apathetic.

For 'marketing' purposes a client may be provided with a reduced cost service to 'display that clip to the catalogue'.

While we may question if there are sufficient price signals and incentives in these cost structures, a truly transparent cost environment would mean that these costs are purely commercial decisions.

However, what may need reviewing is mandatory levies, taxes, fees etc. Do these fees result in a mechanism whereby one group is 'riding on the back' of others? Can these charges influence physical handling and selling systems? Are they on the correct basis - greasy weight, lot size, wool value etc? Does a fee or levy result in one sector achieving benefits at the expense of the grower?

6. SELLING COSTS

It may have been beneficial for the discussion paper to document the minimum steps that a lot needs to go through to be sold at - say - auction.

A considerable amount of the WSSR paper is concerned with activities that are not mandatory for the sale of wool at auction. All too often the issues paper appears to assume that a particular section / task etc. has a mandatory role in the chain. A possible alternate approach could be to start with the minimum functions/roles and then reassess each?

The role of the exporter also appears to be significantly underplayed. There is little mention of the buyers transmitting/promoting/marketing of growers lot details to mills, the daily market quoting and updating of offerings and requirements, online real time bidding conditions etc.



The auction system is a far more complex operation than that implied by the paper. This may be why the number of contract bidders has increased - the required skill base and support services are ever increasing.

Assuming we are reassessing the whole sale process, then let's start with a basic sale transaction. For example we start with a private direct sale between a grower and a buyer. A considerable proportion of the clip is 'sold' via this direct method.

By comparing the costs for a 'path of least resistance' and that of the stages/services described in the paper then one could start to understand what are the discretionary costs and possibly the greatest opportunity for change.

Assuming both parties are informed enough to make that commercial transaction then we may then look at the 3rd party costs associated with the transaction. For example the wool levy itself. Should the levy be applied to all these methods of sales? Should it be weight or price based etc.? Where is the equity?

We may then:

- add another function / option to the sale process. For example, add testing and assess that process.
- move to other 3rd parties - brokers, AWEX, etc. Reassessing the 'value' and equity of the costs and charging methods.

We may also consider issues such as:

- is there sufficient incentive for the broker to maximize the growers return?
- has the 'system' evolved into undue priority allocated to efficient warehousing rather than maximizing grower returns.

Again, all the above are largely independent of the type of sale employed - tender, open cry auction, sale by description.

To address the issue of cost let's start with the wool arriving at a store - be it a contractor or broker - in preparation for sale.

As this is a grower cost focused study then a useful benchmark is to start with the differences between the costs of a low cost broker and a full service broker; the later providing services such as farm visits. The difference may provide a benchmark as to the cost to the grower of such services.

6.1 THE 'LOW COST' BROKER/CONTRACTOR

At 'one end' of the scale we may have a situation where a clip arrives at a brokers store without detailed documentation, it is weighed, tested, a certificate issued and presented in a catalogue. Some audit processes may occur before the wool is actually sold but not mandatory.

At this stage negligible incremental broker costs are involved. Generally the grower will be paying for the delivery to the store, AWTA testing fees etc. The broker may pay less than \$1



per lot for AWTA to manually collect the data suitable for the preparation of an IWTO certificate.

Once an IWTO certificate is produced it may be argued that the lot is now on equal footing with any other lot sold with an IWTO certification. The lot could now be included in a combination certificate etc.

If the broker is using a contract handler, then the current contract rates could result in a cost of less than \$10 per bale to the broker/grower and the direct broker selling costs to a grower could be as low as \$12-22/bale - testing fees, levies, etc often being consistent across all brokers.

Remember we are only addressing costs not price maximization!

6.2 AT THE OTHER END OF THE SCALE - A FULL SERVICE BROKER

Apart from providing on-farm services, the broker in this category may - among many other services - provide a receipt of delivery for insurances purposes, verifies documentation, marshals, inspects, audits etc. for the purposes of preparing wool for testing. Prior to sale the broker may then market, appraise, advise etc.

In this case broker costs to a grower may be around \$50+ / bale.

So if we have 2 brokers who can both achieve the same certification level - and hence it can be argued the same potential sale price outcome - then there is around \$30/bale price differential.

At least we know that this \$30/bale differential is a discretionary cost and it may be argued that while the cost is within the selling system review it maybe 'outside' the focus of reviewing the exchange of ownership.

These are the direct costs. If we consider the Post Sale Charge issue - discussed ealier - then the cost differentials are often significantly greater.



SECTION IV - GENERAL

More general commentary on the:

- Review Objectives
- Impediments for Change
- Maximising Income
- Current Selling Systems

7. REVIEW OBJECTIVES & REACTIONS

Restating the objectives of the WSSR

“The key objectives of the WSSR are to improve the returns that woolgrowers receive for their wool through:

- a. evaluating whether greater efficiencies and cost savings within the exchange of ownership between the seller and the first buyer are attainable*
- b. understanding the potential for increased competitive tension throughout the wool selling process and how it can be achieved, and*
- c. determining whether there is sufficient transparency within the exchange of ownership to allow woolgrowers to make the most informed commercial decisions about their wool growing enterprise.”*

It is often said that the more removed a supply chain sector is from either the production of a product, or its end use, then the more likely that cost reduction will become the primary focus. While the sectors at each ‘end’ of the chain - .e.g .grower - focus more on maximising income intermediaries will chase costs.

Too often the wool industry has dedicated resources in attempts to save - say - \$2-3 per bale. Whilst these efforts should not be ignored we need to remember that growers are operating within a volatile opaque market where it is difficult to assess if the price achieved was within 20c/kg of the market - maybe 10 times that of any of the above cost savings.

8. IMPEDIMENTS FOR CHANGE

If we consider that:

- 8.1** Since the 70’s electronic selling systems - e.g. EWP - were operational and sale by description support systems - e.g. MinSpec - were evaluating whether greater efficiencies and cost savings within the exchange of ownership between the seller



and the first buyer are attainable. Significant research material is available that defines the success hurdles for these developments.

- 8.2** Today wool growers sell, buyers purchase wool via electronic systems and 'by description'. Again there is ample material available as to what is required for an increase in these adoption rates.
- 8.3** Commercial entities continue to commit private resources to innovative approaches to new wool selling methods and 'systems'.
- 8.4** The former AWC and now AWI have committed significant grower funds to providing reports such as the sheep-back-to-mill and evaluation of selling systems and the development of support systems. The AWI itself publishes extensive material on topics such as cost minimization and maximizing returns. This AWI material currently reports 10+ grower options for sale. Does this demonstrate a lack of knowledge transfer, apathy or lack of commercial viability?
- 8.5** A significant proportion of the 'first buyer' sale transactions are not in fact occurring within the open-cry auction. The report states that approx. 90% of sales are supported by organisations such as AWEX. Clearly this process provides one element of the quality control process. However, given that some estimates suggest less than 50% of first hand sale transactions reach the auction selling system then a significant change is required if the focus becomes the grower.

If the industry has queries as to why there has not been significant change, or if there is a perception of lack of competition, then responses may include:

- 8.6** Is the report suggesting that wool growers have not been adequately represented by their industry bodies, or organisations, to provide the tools and resources to make informed decisions? If that be the case, then why does the report imply a continued mandatory role for these very same organisations?
- 8.7** Are growers really that indifferent, ignorant or apathetic to change?
- 8.8** Is the industry 'blind' to the significant advances that have occurred?
- 8.9** In this environment it may be difficult to demonstrate quantifiable direct grower benefits for any alternate selling system.

On a number of occasions the report indicates a desire to identify impediments for change. Private companies and organisations have an objective to be commercially viable and generally also place a high priority on the health of the industry. However, it may also be argued that some commercial decisions may not be in the direct best interest of an individual grower. So if there are 'impediments' where were the organisations that are funded to ensure such impediments are eliminated and act in the best interests of growers? Again the WSSR paper appears to make significant assumptions regarding the mandatory roles for particular sectors.

We may consider the current situation with respect to mill contract buying. Despite quantifiable price premiums being made available to growers it is the mill/buyer, not the growers agents, who continue to commit resources to promote such marketing options. It may



be argued - Is there insufficient incentive for the growers' agents to seek out such selling methods and premium services?

9. MAXIMISING INCOME

The AWI web page reports:

"Many options exist for the marketing of your wool clip. The price of wool is highly volatile, with this volatility being a major risk for any woolgrowing business. Understanding the value of your wool before sale can assist in assessing marketing options and the use of price risk management tools. Knowing where current prices sit in relation to historical values can also help reveal the current point in commodity price cycles."

http://www.makingmorefromsheep.com.au/market-focussed-wool-production/procedure_2.3.htm

An often used analogy is "*if I was selling my property would I sell this way?*" In the majority of cases the answer is no. This is not a criticism of one selling method – e.g. the open cry auction – but more of the actions taken by all parties to support that sale method.

The AWI web page reports some 10+ options for the sale of wool. It is not clear if the issues paper is suggesting that the options available are too restrictive, or the market based determination of the preferred method is based on skewed information, or there needs to be improved education processes etc.

So if we assume the industry has 'done its job' and the grower is 'well informed'. We may also assume that the process leading up to the choice of selling options is operating with a 'free market'. Then what determines the use of a particular selling method? Is it possible all due to risk aversion? Is it that organisations such as AWTA or AWEX operate on only certain 'first hand' selling options?

Of course it has been well reported as far back as the 1890's that the geographic nature of wool production opens the opportunity to skew information transfer away from the producer. So we have not advanced significantly from this same issue?

The industry is evolving and new selling options and new business are developing to meet the emerging market conditions. Care is required to ensure that any 'noise' regarding any major structural change does not jeopardize these innovations, to the detriment of growers; or introduce further barriers of entry.

The AWI states above the importance of "Understanding the value of your wool before sale".

It has been argued that the best way to get that understanding is to use mechanisms based on the market quoting systems that are produced via the auction process. A few issues that have previously been proposed:

- The auction system does not encompass the all selling options and not all 'first-hand' sales. Re-consideration could possibly be given to the option for the buyer, and or grower, to provide more commercial data, covering all selling options; rather than from sectors whose primary focus is selling or reporting. This is not uncommon within other industries.



- The greater the transparency in market prices/information the potential for reduced profits by 3rd parties which may in turn lead to reduced participation.

In attempting to overcome the above, growers are increasingly being provided with access to 'raw' sale data - each and every sale lot, test data, price buyer etc. The advances in IT technology enables the rapid transmission of all sale data and growers are now improving their skills at interpreting that data - rather than processing 'normalized' market reporting data. This freely available market data was once closely held by buying companies. Now they make commercial data available to growers to improve both parties marketing options and transparency.

10. CURRENT SELLING SYSTEMS

In generic terms, when describing the wool selling process that is of direct concern to the wool grower, it has often been described as the sale of a 'part', or raw material, that a buyer will use for the building of a product. That is, it could be worthwhile noting that in the majority of cases the grower lot sold is not the 'delivered' product. More often than not the buyer is 'building' - say - 100 bales of wool of varying technical specifications and price ranges to meet specific performance, quality and price constraints, all at risk. Any selling system needs to recognise that it is more than likely that it is not this single lot that is eventually 'delivered'. A shift in this concept will result in the shift of risk. If that shift in risk is transferred to a less informed sector then disbenefits are aligned against the grower.

While there are rules and regulations regarding the mandatory roles of particular organisations there is no 'legislation' as to a required selling method, so why have so few utilized? As the WSSR paper indicates, where are the impediments and/or incentives? What is often missed is if these mandatory roles influenced the adoption rates?

It has been often argued that the exchange of ownership provides the grower with one of the widest set of options within the 'chain'. Additionally, it has been well documented that the open cry auction is the most cost efficient mass exchange of ownership method employed by the wool industry. Yet this segment of the 'chain' continues to have the greatest focus for change. The bottlenecks may in fact be elsewhere?

The WSSR discussion paper implies a re-visit to electronic selling options. Since the 70's - e.g. EWP - alternate electronic systems have been operated, evaluated or trialed. These have included numerous versions of electronic tender systems, 'dutch' and 'flower' auction systems etc.

There is also often confusion regarding the interdependence between systems:

- sale by description
- electronic and online selling
- total specification etc.

Among the reasons claimed as to why these systems have failed include:



- attempting to impose a template solution.
- the non-homogenous nature of the product.
- the failure to recognize the sophistication of buying procedures and processes.
- reduced transparency.
- the creation of additional barriers of entry.
- the biased benefit profiles.
- the dependence upon adopting sale by description.

As discussed earlier providing the grower with choice is not necessarily advantageous. A predominate selling method may provide a good price disclosure system but it has also been argued that it inhibits a drive for innovation, biases benefits, promotes cross-subsidisation etc.

Every day wool is sold by description and wool sold electronically. Buyers will support such systems - provided the risks are manageable or transferable. In all these cases it is common for the broker to charge the same PSC independent of the selling method used. That is, the PSC charges may not reflect actual costs and therefore potential bias selling options.

With respect to additional specification much of the work started in the 70's & 80s' via the MinSpec trials still are valid today.

So it appears that we again have the focus of the report on growers and the auction system?

In that light, two of the things that continue to be highlighted:

- There is little objective data available on what proportion of growers lines reach the auction system. Some estimates are less than 50% and predictions indicate the rates will continue to fall. The discussion paper reports that "90% of Australian wool still sells by traditional option." But not 90% of sale transactions. As consideration needs to be given to 'door' buying, interlots, bulk class, dealers' lots etc. and other sale transactions where the levy is no longer applicable. It appears that not only growers support the current auction selling method but also commercial operators. Is this a market force operating or is it information to growers being 'filtered'.
- Buyers in the auction room have no knowledge of that original ownership status.

So a modified selling system - or replacement for the auction system - may only impact on a continuing declining proportion of growers lines. Additionally the selling options that have the greatest price sensitivity are those systems that are likely to remain as is, and provide little benefit to the grower.

