

WoolConnect Limited ACN 126 441 352

Wool - the way you want it.

www.woolconnect.com

Submission to the Wool Selling Systems Review Committee on behalf of WoolConnect Ltd.

Background;

WoolConnect Ltd. is a wool supply chain management company established in 2000 owned and successfully operated by 66 wool producer shareholders based in the southern slopes and tablelands region of NSW. The organisation was established by wool producers to improve their returns utilising the existing wool marketing chain and rearranging the interaction between the chain partners to develop a chain that operates on a “demand pull” basis rather than a “supply push” basis.

With this objective in mind WoolConnect has been able to;

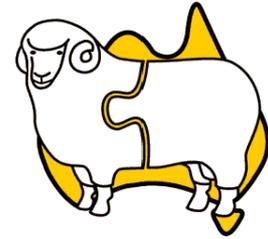
- implement a marketing strategy that enabled producers to create efficiencies, and improve their returns by securing and returning to them more of the value they create within the supply chain. This has been achieved without disturbing to any great extent the mechanisms that exist within the present supply chain system. E.g. producers maintain their relationship with their broker in providing testing, warehousing and shipping services.
- develop direct relationships with manufactures of woollen products to establish pricing levels that enable viability of both chain partners, and, providing them with consistent quality, traceability to the origin of the product and the provision of product built from the selection of the raw product to spun yarn to meet their exact specification. The company’s main objective in this relationship is to provide the customer with a product that is constructed with a weighting more towards quality rather than price thus enabling them to provide a high quality product to the market with improved sales and in turn repeat business for wool producers.
- develop relationships with the processing sector of the industry so they operate as supply chain partners acting as service providers within the chain and not as traders within the chain. The objective of this relationship is to provide information to, and obtain information from processors with a view to obtaining the best quality outcomes for the product.
- utilise modern technology systems to develop both vertical chain communication and horizontal communication enabling a direct and instant flow of information between manufacturer and wool producer. E.g. we constantly liaise with our customers regarding their requirements and the adjustments they may wish to apply from batch to batch and refer this information directly to producers.
- minimise the change of ownership of product through the supply chain. This has minimised risk and reduced the cost in having to trade the product within the chain.
- WoolConnect Ltd. has proven this as a working supply chain model with very limited resources. We do not envisage it as replacement for the present marketing model but as marketing option for producers to utilise and improve their returns. There may also be benefits to be gained and possibly strategies to be applied to the present marketing system by examining or investing and expanding this model.

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Submission

This submission from WoolConnect Ltd. is targeted at the price realisation method used by the present marketing system which impacts on the value of product throughout the entire wool supply chain. That being a commodity pricing mechanism (being applied to a well described product). This mechanism does not enable woolgrowers to realise the true value of their product to customers and denies them the opportunity to provide extra value and assurances to their customers. It also restricts the flow of vital information required by wool producers to make timely decisions in relation to their levels of production to meet market demands. It creates inefficiency and a trading regime within the wool supply chain that is costly and increases risk and sees every sector of the wool supply chain operating in isolation with minimal consultation or awareness and creates an overly competitive environment within the chain. It is these inefficiencies and costs within the chain that compromise quality and consistent product being supplied to customers and sees customers move to the use of alternate fibres.

The submission of WoolConnect Ltd. would contend that the best method for producers to improve returns and market penetration with their product is for wool producers to take more responsibility in the development and management of a marketing mechanism that will deliver viability and be inclusive of all wool supply chain partners. Also to promote and develop dedicated supply chains linking all chain partners to achieving a quality outcome for customers and sharing in the value created in the chain.

The major concern of woolgrowers as we face yet another review of industry operations and particularly a review of the present wool selling system, is, who is going to implement the findings of the Wool Selling Systems Review Committee? This may well be a question the Review Committee needs to ask of AWI prior to the engagement of time, funds and resources in the review. Will it be just another "suggestion" for the industry to adopt? WoolConnect Ltd. would like to see AWI take a leading role in this initiative and the implementation of the Review Committee findings. This could possibly mean AWI having to relieve itself of some of the statutory constraints that prevent it from involving itself directly in marketing restructure and enable it to deliver real commercial outcomes and marketing strategies for its stakeholders. We believe that AWI is well placed to face this challenge.

WoolConnect Ltd. and its wool producer shareholders would like to see the development of a marketing mechanism that enables producers to capture the value they provide to the chain in delivering a well described product. This would mean the development of a product orientated "demand pull" marketing structure and away from the commodity based "supply push" selling system and structure that operates at present.

There are many vested interests in the wool supply chain presently, who may be happy to maintain the status quo. I would suggest that in doing so you would be doing the entire industry a disservice, and further threatening the viability of wool production.

Thank you for the opportunity to provide a submission to the Wool Selling Systems Review and I am happy to make myself available to the Review Committee if there is any need for clarification of this submission.

Yours faithfully,

John A McGrath Chairman.

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