

# **DISCUSSION ON MARKETING PREMIUM WOOL FOR CONSIDERATION BY ALPACA COMMERCIAL FIBRE PRODUCERS**

*By Gary Simpson, Arcadian Wool Brokers*

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Whilst Wool fibre only represents 3-4% of the world fibre market in Australia the marketing systems for commercial fibre are well advanced. Currently the **Auction System is the most common way of marketing the majority of Australia's wool production**. The Australian wool clip represents 80% of the best (apparel) wool in the world. Various other alternatives are available for growers including Private Selling and Tender systems. More recently selling electronically has found a place, which I will discuss later. Forward selling systems, such as Futures via the SFE or with the Macquarie Bank are becoming more popular to cover risk, as is selling physical wool forward. Worth noting is that the **market price for these alternate systems is generally based on the Auction price of wool on the day**.

This discussion will focus on the marketing background of Sharlea Wool and also Top Quality super fine wool, which represents a very small portion of the Australian wool clip. As with Alpaca these fibres are at the top end of the world high quality fashion market and are very volatile price wise. In addition these wools tend to receive limited competition in the market place.

*My intention is not to suggest how best to market Alpaca fibre. However a basic understanding of the path taken by the Sharlea Society and a basic understanding of super fine wool marketing may help Alpaca commercial producers make the right decisions.*

## **Sharlea Marketing**

Personally I became involved with Sharlea in the early 80's when my father and a partner began their own commercial enterprise. My involvement with the Sharlea Society began in store, preparing overseas consignments and followed on to become a training role in wool sheds as well as sourcing and selecting suitable sheep for shedding or self replacement flocks. Later I developed an auction based marketing system which recognized individual clips and incorporated an equity based line building system.

The Sharlea brand came from the property of Wallace Reynolds who was one of the first, if not the first, to shed sheep all year round with the intent of producing superior and very fine micron wool, worthy of a premium price.

Sharlea production is a very intense exercise, and is a costly wool production system. To achieve the premium product issues of sourcing genetics, daily vigilance, high husbandry skills and nutritional knowledge must be quickly understood. One feeding mistake can cause tenderness in the fibre and cut the potential annual value in half.

### **Sharlea Society Marketing**

In the beginning this new production system was very exciting and attracted interest and participation from a **cross section of leading wool industry people** and woolgrowers who formed the Sharlea Society. The challenges for the society were to facilitate development of Sharlea, including development of sustainable markets and brand recognition. Because of the uniqueness of the fibre and the low volume of production many believed the traditional marketing systems were not best suited to Sharlea. In addition some other wool industry groups, including traditional woolgrowers were not supportive of Sharlea, not surprisingly some felt threatened by Sharlea.

A short wool market was developed for an Italian manufacturer. This required growers to shear each 6 months and deliver wool to the central pool. Wool was consigned to Italy under the Sharlea Brand. Assuming a clip met specification the grower's wool was blended together and grower equities were based on the greasy kilograms delivered.

This system worked well until the production out sized the market and the market collapsed. Unfortunately the society was left with a sizeable quantity of prem (short) shorn wool, no direct market and a product under valued on the open market due to being too short for main stream buyers. Growers had equities in the pooled line, but individual fleeces could no longer be identified, leaving growers in the position where they were locked into the majority decision on how best to sell the wool. The Sharlea committee decided to Value Add to the wool and process the wool into high quality hand knitting yarn, which would be marketed under the Sharlea label. In the end the cost of processing more or less equaled the sale returns and growers basically lost their wool clip.

As you would expect the ramifications were high and many became disillusioned with Sharlea and moved away, either to alternate selling systems or financially forced out of the industry.

Once again the Society found a new market, this time in Belgium. Production guidelines were set based on micron, length and tensile strength. Wool was required at 80 mm, which was 12 months production. Growers wool was pooled and prepared for delivery. After the 1<sup>st</sup> consignment went well the 2<sup>nd</sup> was renegeed on and once again the society was left with a large line of wool to sell. After 12 more months, longer for some, the wool was sold at auction, this time growers received the average price of the pooled line.

From this point Sharlea wool was sold via Auction, once a year in special "Sharlea" sale. **Growers offered their main lines under their own brands** and smaller quantities were lotted together to make minimal sale lots. Basically this system has

operated since, although many producers of shedded wool use other wool brokers and in a few cases have developed their own markets directly overseas.

Going to Auction is not without its pitfalls either. During my time one buying company at one sale completely dominated, paying what ever price was necessary to buy every lot. Needless to say it was a very strong sale. The following year competition was limited, losing bidders from the previous year did not have orders, and the same company picked up wool at greatly reduced prices. Growers were forced to make hard decisions whether to sell or not. However at least they had **complete control over these decisions**, not being locked to someone else's decision as with the pooled consignments discussed earlier.

As with all open markets growers tend to get a good idea as to the demand for the product and who the main buyers are. This is the stepping stone to communication and the learning curb necessary to understand who your customers are, what their needs are, to **discuss your needs with them** and to obtain the right information to make a business decision regarding your own participation in the industry.

*My message here is simple. Be wary of being locked into one selling outlet, and losing identity and control of your own fibre. Each producer has different financial or cash flow needs. Further to this by offering on the **open market** you are giving buyers whom you have never considered or were unaware of an opportunity to purchase your product.*

### **Superfine Wool Marketing**

Much of the previous discussion regarding auction selling is applicable to superfine wool. Essentially they are the same excepting the fact that shed grown wool has less variations due to the controlled environment in which it is grown. ***Usually growers have a value which they believe the wool is worth. Buyers usually have one as well, but the opportunity to purchase below that price is the name of the game for them, they buy as cheaply as they can.*** Nothing new about that! Often very high quality wools are offered for sale with grower reserve prices. If at auction the wool sells at or above this price great. If the wool is not sold at least the broker/ seller has identified the **leading bidder** and negotiations begin privately from here. Once again the seller has control over the decision making process as to whether or not they accept the final price offered.

Deciding what the value of your wool is worth is very difficult. Because relatively small quantities of the very high quality wool is sold the data available is insufficient to create meaningful reports, unlike wools from 18 micron and stronger which do have informative market reports. *As the seller knowledge of the historic high and low price range should be understood, and at what point the market currently is, are important facts when deciding whether your price offer is good or not.* The 18 micron indicator is a good guide for superfine wool growers and futures prices can be a useful guide as to the market view of the future.

## **'On line' Trading Systems**

Over the last decade systems for trading wool 'on line' have been developed. The latest system, Wooltrade offers both buyers and sellers the opportunity to trade 7 days a week, 24hours a day. Simply, the seller decides upon a Target price, which is displayed to the buyer who at any time can purchase that wool at that price, simply with the touch of a button. *Incorporated into the system is a superfine trading board, which operates differently due to the specialized nature of trading superfine wool.* The seller does not disclose to the buyer the Target price. Buyers can offer a price at any time, and only when the offer exceeds the undisclosed Target price is the sale activated. This allows price offers well above the seller's reserve to be achieved.

*Sellers can access the system at any time and instantaneously alter their Target price or withdraw their wool from the system.*

The Wooltrade system is highly geared towards the buyers needs and therefore is selling quantities way beyond other systems. Basically buyers can tailor their queries to include only wools measured and priced to their requirements. This saves time and expense not having to pick through countless lines over priced to today's market, or not relevant to their needs.

**Good Luck for the future, Alpaca is a sensational natural fibre!!!**

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***Gary Simpson***