



IWTO Newsletter



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IWTO Annual Congress – Cairo, May 9-12, 2006

“Winning Strategies for the Customer-focused Wool and Textile Enterprise”



Grand Hyatt



The Global Wool and Textile Industry is experiencing a dynamic shift towards a customer-focused business model. Following a period of emphasis on striving for competitive advantage through supply chain efficiency, wool and textile companies overwhelmingly are re-focusing their business strategies on specific consumer behaviour. The latest IWTO studies and publications have demonstrated and underlined this trend. This shift is occurring practically on all levels of the industry through its whole pipeline. At every level and each point in enterprise process and management it should be reflected.

At the Annual IWTO Congress 2006 in Cairo, senior business executives will meet to share ideas and strategies with colleagues from around the world and from all stages of the entire wool and textile chain. Come and hear from major retailers, designers, manufacturers, processors, re-

searchers, marketers and traders about their winning strategies for their customer-focused enterprises.

The IWTO Congress 2006 will be held at the 5-star Grand Hyatt Hotel in Cairo, Egypt. This landmark is a deluxe business and leisure complex on El Roda

Please visit the Congress website:

www.iwtocairo2006.com

Island, a peace haven directly poised on the river Nile, a perfect central location within the business and commercial district, very close to Cairo's many historic tourist attractions, only 20 kilometres from Cairo International Airport and 10 kilometres from the Giza Pyramids.



Editorial



Dear Readers,

The year has started very positively for wool! At the recent fashion fairs wool has again been discussed very encouragingly for garments. Also for fabrics the positive trend is continuing, natural fibres like linen, silk and wool are prominently present in the new collections. Wool is seen in new and unconventional blends with silk, metal fibres, linen and Viscose – for men and women. In the Interior sector the trend towards natural fibres and especially wool was seen also during the fairs in the last two months. The international fashion trends are giving us an opportunity to

think optimistically towards the future, now the entire supply chain has to act accordingly to take advantage of this situation. Please read in this respect the forecast statement from IWTO President Lempriere in this Newsletter.

Especially in this exciting and important time where we have to shape the future direction of our sector, it is important to have a communication platform for our industry to enable us to exchange our ideas and perception. The IWTO Congress in Cairo in May this year is offering a unique location to meet your business colleagues, your suppliers and your costumers. Interesting speeches under the Congress theme "Winning Stra-

tegies for the Customer-focused Wool and Textile Enterprise" should inspire and support us all for our common goal 'to sell more wool'.

Henrik Kuffner
Director General – IWTO
Brussels, 2006

News from the Members

Associate Members

Secretariado Uruguayo de la Lana (SUL)

We are pleased to announce that starting from January 2006 Secretariado Uruguayo de la Lana (SUL) joins IWTO as a new Associate Member. SUL is located in Montevideo, Uruguay. Its main

activity is the promotion and sustainable development of wool production as well as maximisation of the economic results of its exploitation.

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We warmly welcome SUL as new Associate Member of IWTO!

News from the President

Opportunities and Challenges for Wool Textiles

This article is based on the speech presented by Mr. Michael Lempriere during the ABARE Outlook Conference 2006 in Canberra, Australia



IWTO represents a wide spectrum of activity, from wool production through to fabric, and encompasses twenty two different National committees, thus will always have a diversity of view points. Towards one goal however we are totally united, and that is the success and prosperity of the total wool industry. Since 1990, wool was going through yet another of its difficult periods.

The reserve price had been "set in concrete" at an unsustainable level, the Soviet bloc had collapsed, the world economic outlook was uncertain, and the Australian Wool Corporation, was buying over half of the daily offerings, was heavily in debt, and there was no apparent way out of this impasse, except perhaps to shut the eyes and hope that the problem would go away.

At that time I got myself in considerable trouble with almost everybody, for stating the obvious. That maybe what had worked in the past was not going to necessarily work in the future, that in a changing world past decisions should always be under review, and that we should have a good hard look at the Reserve Price Scheme.

Six months later the Reserve was reduced by a half hearted 20%,

and by the end of the year it was dead. The funeral has been long, messy and very expensive.

Australian (and global) wool production has halved, costs have increased well over 50% yet prices, particularly for fine wool are, in real terms, at historic lows.

In spite of innumerable enquiries and reshuffling of the deck chairs, the structure of the industry and the various organisations that purport to represent and support it remain by and large the same, and the debate within the industry still sounds remarkably familiar.

The major proportion of the wool clip is still sold through the auction system at five different locations. The average lot size is still far too small, adding to complexity and cost. There is still a vast chasm of misunderstanding between the producer and his immediate customer – let alone his final customer – the retail consumer. There is still a statutory body which relies on compulsory levies for its income, which is charged to spend the money wisely on behalf of its constituents, and there are still people (from all levels of the pipeline) who question the direction and efficiency of that expenditure.

Whilst I hope that what I have to say will not again bring down the wrath of the gods, I do trust that it will provide some food for thought, and encourage clear headed debate about wool's future, which is clearly in the balance.

It has been suggested that I speak about the Opportunities and Challenges facing the wool industry, and this is indeed a subject (or rather two subjects) which gives plenty of scope for discussion.

Please allow me to deal first with the negatives – the numerous and daunting Challenges - and thus be able to finish on a positive note with the real and exciting Opportunities which lie out there waiting to be seized.

The first and most critical challenge facing wool is that Australian farmers continue to produce it.

I am not talking here about the crossbred wool which is more and more a by-product of the burgeoning sheep meat industry. I am talking about merino wool, wool for apparel, wool produced for its own sake by producers dedicated to quality and for whom meat is the by-product.

Also I would include the growing community of "dual purpose" breeders who would like to have the best of both worlds, or at least a "bit each way" but for whom wool and wool of quality is an important issue.

The reasons why so many farmers have turned away from wool production are several, and each of them on their own compelling.

- The rewards (or rather the lack of them.). Fifteen years of at best patchy prices, and the last three years of steadily declining values (with the last two below the cost

of production for even the super efficient) is reason enough for even the most dedicated merino producer to look for alternative ways to use his land.

Cropping, from the comfort of an air conditioned tractor is a lot more pleasant than drenching contrary merino whether in the searing heat or pouring rain, and with a series of drier seasons a lot of country once considered totally unsuitable for crops has come under the plough.

Better returns from the beef industry has made running cattle more interesting, and 500 cows are a lot easier to deal with than 5000 sheep.

And of course the success story of the grazing industry must be the development of a huge and growing export market for a new generation of lean prime lamb.

In addition there are niche activities which have drawn grower's attention. Timber, dairy and grapes come to mind (but the latter is probably not such a shining example.) In the pastoral zone even rounding up feral goats has been more rewarding than wool production.

- The new generation. The last decade has been a period of generational hand overs for so many family businesses, and farming is the quintessential family business. A new, better educated, more flexible generation of farmers (and also their wives) have less patience with the old ways, and want a return on their capital and a lifestyle less harsh than they have seen their parents endure. They are much more ready to challenge the old ways, and to try new methods and different enterprises.

- The work force. It is an unfortunate reality that fewer and fewer young and talented people see a future on the land as being their first choice. It is also true that fewer and fewer young people are attracted to hard manual

work and getting their hands dirty. Running sheep requires quite a lot of hard manual work, and you do get your hands (and the rest of you) dirty quite often.

Wool harvesting (once known as shearing) is becoming more difficult with an ageing population of shearers, and a lack of young people entering the industry. A lot of work and investment has gone into the search for an alternative method of separating the sheep from his fleece, but so far with limited success.

But finally it gets back to returns, and wool, however good you are, or how efficient, costs a lot to produce. Certainly a lot more than its competitor fibres, be they natural (cotton) or man made (polyester/acrylic), and although wool can still command a good premium over its competitors, it needs more.

The challenge is to keep producers in the business and attract some who have left back into the game.

This can only be achieved by offering better returns to dedicated wool growers, and through R&D, finding ways to make the merino sheep easier to work with.

Whilst producers have been suffering, they have (in many cases at least) had the possibility to diversify their enterprises, and so reduce dependency on the one product. Spare a thought for their immediate customer, who has massive investments in land, plant, machinery, working capital and specialist skills dedicated to the conversion of a dirty and difficult raw material into something that a final consumer might actually want to buy.

He has seen his raw material supply halved, he has seen demand for his products slump, and if he is not fortunate enough to have access to extremely cheap

and competent labour, he has had to face a veritable tsunami of final products flooding his markets, and being offered at prices which are not only below his cost of production, but are at levels impossible to understand, regardless of the cost of labour.

Add to that the enormous financial risks of trading in a pipeline that is under severe economic stress, and it is no wonder that so many companies are giving up the fight.

The challenge is keep our customers in the business by making wool a more rewarding industry to be in.

Over the years wool has been extremely fortunate to have enjoyed a very wide customer base, spread over more than forty countries which had significant wool processing industries. The raw wool has always been largely produced in the Southern Hemisphere in the southern spring, and consumed in the Northern Hemisphere in the northern autumn /winter.

The long road to market through many stages of process has in the past been readily financed by individuals and institutions who have been prepared to accept the commercial risks in return for a reasonable margin. The commercial risks have multiplied, the ability to insure these risks has tightened, while the attainable margins have shrunk to insignificance. Not surprisingly this risk capital is exiting the industry.

The challenge is to attract risk capital back into wool by making potential returns more rewarding.

A combination of many substantial players in the market from all around the world, and a strong base of risk capital, provided the

ideal environment for a raw wool distribution system based on the auction system to thrive.

The auction is a very sensitive and responsive instrument. Only a comparatively minor excess of demand over supply on any given day can bring immediate rewards to the seller. Conversely however, only a comparatively minor shortfall of demand over supply will have the reverse effect.

And this effect we have seen at work so devastatingly over the last three years.

In the current environment, a combination of comparatively few major players and a shortage of risk capital (and risk appetite) places the auction into serious question as the most suitable and effective price setting mechanism for the industry.

A glance at recent export figures show that we are sending nearly 60% of our wool to one country – China. Whilst we must be grateful that China is there, both to provide low cost transformation, but equally as a very important final market, such dependence on one customer destination (and a very disciplined customer destination) leaves us very vulnerable to unforeseen consequences, and is not prudent business practice.

The challenge is to successfully encourage more substantial players into the industry, in order to provide a stronger base of demand, and also to encourage more and better demand chain cooperation, with long term negotiated prices and conditions, satisfactory to all parties.

In 1999 Australian woolgrowers

effectively decided two things:

1. That grower funded R&D was the way forward, and
2. That marketing and promotion had not served the industry well, and could afford to be abandoned.

R&D, as it concerns improvement in on farm performance and quality of product, is certainly very important, and can only be carried out with the support of producers with hopefully some assistance by government.

R&D, as it concerns processing and product development will always to be undertaken by industry participants, if only to give them an edge in the market over their competitors. I am uncertain about the role here for grower funded research, but if undertaken must always be careful to avoid the temptations of “picking winners” and “playing favourites”, and care must also be taken, in the event of technology transfer from advanced industries to emerging ones, that existing good customers are not damaged and thus alienated from wool.

In the matter of marketing the case is much clearer. I believe that the critics were right when they said that marketing and promotion had not provided value to the industry commensurate with its cost. The approach had been far too scattergun, with the Woolmark trying to be all things to all men, and thus not really succeeding with any.

However with the perfect judgment of hindsight, the problem was not the principle but the approach.

Two years ago the International Wool Textile Organisation commissioned a world wide consumer survey by Kurt Salmon Associates, which graphically illustrated how desperately wool

had lost market share during the five years following the suspension of the marketing budget. It explained for example, that in women's wear wool had become almost totally forgotten. It confirmed the strongly enunciated view of my predecessor as IWTO President, Juan Casanovas, that for wool to succeed, we had to become demand, not supply driven, we had to focus on the customer – “demand starts in the shop and ends with the sheep.”

Last year at IWTO's annual conference, held in Hobart, Woolmark's Brenda McGahan proposed a plan for a \$A 9 million Test Marketing Program for apparel wool, to assess both if and how well targeted strategic marketing can affect consumer behaviour, and to measure the relevant effectiveness of different approaches to that objective.

This proposal was fully endorsed by all delegate countries present, and was supported by a generous dollar for dollar offer of support from Australian Wool Innovation. The contributors to the program are AWI with 50%, IWTO 40% (with direct cash contributions from 14 member countries, plus a \$1.50 per bale contribution from buyers in Australia, \$270,000 from the Australian Wool Exchange, plus individual and corporate contributions), and AWS (The Woolmark Company) with 10%.

The plan was further developed with a comprehensive study produced jointly by Woolmark and Boston Consulting Group entitled “The Case for Action”.

This program is now well under way and will concentrate on the United States market for Autumn/Winter 2006/7.

So this is the final, most important and most daunting challenge.

The restoration and enhancement of wool's qualities in the minds of the global consumer.

In six short years Wool has become a forgotten fibre. This has to be, and will be, rectified.

If we can successfully respond to this challenge, most of the earlier challenges I have mentioned will be put to rest.

So you will see that of challenges we have plenty, and none of them easy.

Should we be despondent?

The answer is no, for the opportunities are equally numerous and equally powerful – indeed powerful enough to turn around the fortunes of this once great Australian industry.

Out of the adversity being felt through the whole wool demand chain, we have created something quite unprecedented in the history of one of the world's oldest industries. We have created a cooperation – a willingness to work together – from growers through to spinners and weavers, around the world - to solve together the problems that beset us all equally – a matter no less of our survival or our demise.

This is a unique opportunity, which cannot be squandered.

The world is undergoing great change. To our north two great countries, both with a long and distinctive cultural heritage, are starting to move – one very fast and one rather slower, but with equal certainty. Within a few years their population will total 3 billion – three times the total of Europe and the United States combined.

As more and more of their population grows in affluence, like all newly wealthy people the

world over, they will want to demonstrate their success to the community in which they live. One of the first and most important ways to demonstrate this is in the way that they dress. The model for this comes out of the West – from Europe and the United States.

It is imperative therefore that we ensure that wool, a fibre which absolutely needs to command a higher price in order to remain viable, maintains and builds its position as the fibre of choice for the upper level market.

Wool is only a small player in the total fibre picture, but it still commands 10% of the apparel fibre market.. Nevertheless can only get smaller, because fibre consumption grows at least at the rate of global economic growth – possibly faster – and it is difficult to conceive that wool production will (or can) match this rate of growth.

Wool will therefore become more and more of a niche. We have a choice – an exclusive, premium niche or an irrelevant niche.

The choice is not difficult.

Wool must unashamedly focus up market. The rest will follow.

Our industry is a global one and we cannot afford to be parochial. We must develop and define a global strategy. We must think and act globally, and must work together with our colleagues in the Northern Hemisphere, particularly those who are closest to the final market, and we have to seek out and be prepared to pay for the very best marketing advice.

We must know and understand where we want to be in the market, and who are our friends and who are our enemies. Contrary

to the popular view of some, our enemies are not other wool producing countries – these are our allies. The enemies are other fibres, which have stolen or would steal, our market.

We must, and can, create new markets. For example one of the fastest growing sectors is what is called active outdoor wear. Wool has been almost totally absent in this forum, yet we now have fabrics developed which out do both in comfort, warmth and technical performance any of the much vaunted technical" (synthetic) fibres which dominate the choice of the "extreme sport" aficionados.

We can regain what we have lost in the women's wear market. The products are here, but are poorly represented in retail collections – the mindset of the retail buyer has to be turned around.

In the United States some unlikely ambassadors for wool have emerged. Rappers, previously noted for the most grotesque and ugly dress, are now being seen in beautiful Brioni superfine merino suits. Similarly classy attire is now being worn (off the court) by National Basketball League heroes. Nobody is paying these people, yet the spin off is huge.

Imaginative and effective marketing does not have to cost a fortune.

There are some wonderful and beautiful fabrics and garments being made from fine wool.

We need to seize the opportunity and tell the world.

*Michael Lempriere,
IWTO President, 2006*

Project News

Feature Wool!



Feature Wool! Designers

The first edition of the Feature Wool! Project at one of the most internationally known fabric exhibitions within the textile industry TEXWORLD held in Paris from 19th to 23rd February has just taken place. It turned out to be a great success.



Seung Hee Lee

For the first time young designers displayed their works and creations with wool in an IWTO one-roof stall with 3 individual sub-sectors for each of them. The designers are the winners of the World Wool Award 2005 in the category Fashion & Design:

- **Hannah Shaddick**, UK, Winchester School of Art
- **Salla Kangasniemi**, Finland, University of Art and Helsinki
- **Seung Hee Lee**, South Korea, Central Saint Martins College of Art & Design, London

The designers and the Feature Wool! Project itself faced a huge interest from the textile industry. Many visitors and journalists came to see their works and learn more about the IWTO initiative. All three young designers were highly satisfied with the number of people visiting the stand and the business contacts they managed to make during



Salla Kangasniemi

TEXWORLD. Also the IWTO section of the project stall was a great success. The number of visitors exceeded our expectations, and good PR work for IWTO could be done. IWTO has therefore decided to make Feature Wool! Project for a long term and to be present at both TEXWORLD editions twice yearly in Paris, in February and September.



Hannah Shaddick

With this project there will be various benefits for the wool industry, such as:

- *Improving communication between professional designers and wool industry*
- *Attracting the professional designers by using wool/wool blends in their collections*
- *Educating the customers with the benefits of wool, relating to increase of use of wool*



Samples

- *Exchange of ideas and opinions within the wool pipeline*
- *Identifying and stimulating innovation through design inventiveness in fashion and fashion fabrics*
- *Promoting in an effective way the products to potential users*
- *Providing a perfect platform for the designers to expose their designs with wool*



The project is kindly sponsored and supported by TEXWORLD/ Messe Frankfurt and Woolmark



Project News

World Wool Award Edition 2006



Olivier Lapidus, Ilona Schulz, Marzena Osciloswska and Olivier Segard

We would like to inform you that the Jury Meeting of World Wool Award edition 2006 took place in Brussels on February 7th. Already for the second time many various prominent textile specialists agreed to participate in this meeting as Jury Members and serve with their professional knowledge by the evaluation of the entries:

- **Mr. Juan Casanovas**, Juan D. Casanovas, Spain
- **Mrs. Ulla Ertelt**, HML Modemarketing, Germany
- **Mr. Olivier Lapidus**, Designer / Couturier, France
- **Mr. Guido Mantura**, Lapidus, Italy

- **Mrs. Ilona Schulz**, Textilwirtschaft, Germany
- **Mr. Olivier Segard**, Segard Masurel, France
- **Mr. Georg Steffens**, The Woolmark Company, Australia
- **Mrs. Jutta Wiedemann**, Niederrhein University of Applied Sciences, Germany
- **Mrs. Daniela Zimmermann**, Designer, Switzerland

The Jury identified the winners in three categories:

- *Fashion & Design*
- *Marketing & Promotion*
- *Concept & Innovation*

The winners of World Wool Award will be announced at the World Wool Award Ceremony on May 10th in Cairo during the 75th IWTO Congress. They will be present in Cairo and will display their works on a special World Wool Award stand.



Daniela Zimmermann and Juan Casanovas



Discussions



Display of Projects



Georg Steffens

Project sponsored by



Jury Members studying the projects

Project News

Interior Textiles – Market and Consumer Study



GFK is reporting that they are at the final stage of their field-work and they have already announced that an interesting outcome can be expected. The final and exclusive presentation of the complete study will be made during the IWTO

cussion with the following prominent speakers:

- Mr. Mohamed Farid Khamis, The Oriental Weavers Group, Egypt/USA
- Mr. Bruce Bell, Bellbridge Carpets, USA
- Mr. Marc Bartels, Arte Espina, Netherlands

The Interior Textiles Market and Consumer Study “Future of Interior Textiles” is under current execution by GFK – Company.

Congress in Cairo in May.

The presentation of the study will be followed by a Panel dis-

Events

IWTO Wool Forum – Xi’an, November 19-21, 2006



The next IWTO Wool Forum will be held in Xi’an, China. This event will be organised jointly with the Conference of CWTA (Chinese National Committee of IWTO) that takes place every two years and the Xi’an University Wool Congress organised every 4 years at the Xi’an University, the largest textile university in China.



Note this important event now in your calendar!



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Events

IWTO Country Summit India – Mumbai, October 11-12, 2006



We are happy to announce that an IWTO Country Summit will be held in the textile capital of India, Mumbai this year. The Summit will take place at Bombay Exhibition Centre on October 11th – 12th 2006, and will be held parallel, same date and same location to the prominent international fairs TEXWORLD -

India and HEIMTEXTIL – India. The IWTO Country Summit will be organised jointly and in cooperation with the organiser of the two mentioned fairs, Messe Frankfurt.

As India is now getting a key position worldwide as a manufacturer of a wide variety of textile products and the Indian textile industry plays an important role in the economy of the country, the Country Summit India is a perfect opportunity to discover the Indian market of textiles, apparel and interior textiles. This event offers you a great platform for creating business contacts in these sectors.

All interested players from the textile industry of India, as well as the representatives of international textile, apparel and home

interior textiles industries are invited to participate in the IWTO Country Summit India. Please contact the IWTO Head Office if you would like to participate in this exciting event as a delegate, speaker, sponsor or exhibitor.

The Country Summit programme details will be published in the next edition of the Newsletter.

Promoted by:



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IWTO is the international body representing the interests of the world's wool-textile trade and industry.

IWTO membership covers woolgrowers, traders, primary processors, spinners, weavers, garment makers and retailers of wool and allied fibres in its member-countries, as well as all kind of organizations related to wool products and the wool business in general.

IWTO offers you a perfect network & world wide platform for business contacts in the following sectors:

Apparel

Technical Textiles

Interior Textiles