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Promotion : Albatross or salvation of the wool industry?

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Introduction

Wool promotion has existed in much the same form for the last thirty years. Compulsory levies are required to finance wool promotion. Involvement by Government is therefore needed to collect revenue from producers. This is what creates the public policy issue. Promotion of wool would not be a matter of concern if it were conducted by private firms in the wool industry. It is fundamental to the debate over wool promotion that the economics of generic promotion is different in principle and practice from the promotion of branded products by private firms.

Generic promotion is the cooperative effort to increase demand by producers of products, which are more or less homogeneous, and produced by numerous firms none of which have the incentive or ability to advertise on their own account. Generic promotion of wool and other agricultural products raises many difficult issues in both the execution and evaluation of promotion. By contrast, brand promotion, whereby private firms attempt to increase their profits by advertising and other means, is uncontroversial in the sense that private firms are more than capable of judging the costs and benefits to them of advertising and

promotion.

Above all, advertising by private firms is a voluntary business decision. The essential economic function of advertising and promotion is to provide consumers with information, a crucial ingredient in the functioning of market economics. The widespread use of advertising demonstrates that creative and well-targeted campaigns are profitable.

However, not all firms advertise or promote their products in the same way. There is obviously considerable skill and experience in deciding when, how and especially how much, advertising should be undertaken by private firms. Not all this experience is relevant to the generic promotion of wool. Apart from the element of compulsion in wool promotion, wool has different characteristics as a product and the wool market is vastly different from other markets where branded products are advertised.

Promotion and the Wool Market

The success of promotion depends upon the context of the promotion, the nature of the product and the structure of the market to which promotion is directed. Understanding the full effects of advertising requires knowledge from other social sciences, notably psychology. In this context, it is worth noting that advertising provides information and entertainment which itself may be the direct object of consumer preferences and have indirect effects on industrial organisation.

Economics does not have all that much useful to say about creative aspects of promotion that determine the visual content of promotion campaigns and the subtleties of advertising messages. It is reasonable to observe, however, that there is always some temptation for the advertising industry to direct the content of the promotion towards impressing the people who are paying for the advertising and promotion, rather than persuading the consumers who are expected to purchase the products. This is especially so in the case of the generic promotion of agricultural products where farmers and their organisations have some control over the conduct of promotion campaigns. Frankly, farmers are not in a position to judge the success of promotion in either its creative or commercial dimensions. Unlike their north American counterparts where generic promotion is now the subject of vigorous debate and often litigation. Australian farmers have been reluctant to question the efficacy of promotion. Farm organisations defend the status quo in wool promotion, as in other areas. For their part, private firms keep advertising agencies on their toes by frequent changes in advertisers and willingness to seek advice from independent market research companies.

Not all products or commodities being promoted are the same. There is no sense basing the case for wool promotion on the success of promotion of branded products or generic promotion of other agricultural products. Most often, these studies suggest that promotion is 'successful', in the restricted sense that growth in consumption follows expenditure on promotion. This is a very narrow view of the economics of promotion. In the limit, evaluation of promotion should consider the cost of promotion and the other uses to which compulsory levies collected from agricultural producers could be directed --including increased on-farm investment. The wool industry has a demonstrably poor record of productivity improvement, which makes the relaxed attitude of the leadership of the wool industry to wool promotion even more difficult to understand.

The wool industry is so diverse that not all farmers could conceivably benefit from promotion. This is why compulsory participation in generic promotion is contentious. Some categories of wool are close substitutes for synthetics. It is implausible that promotion can have much effect on prices of the wool types used in blends where fibre substitution is simple. Moreover wool is only a minor product in many farm businesses.

The reasons for enterprise diversification are often related to management of risks and on-farm costs, not product prices. Mixed farmers have less to gain from off-farm investments in marketing activities like wool promotion than wool specialists. It is surprising these farmers have been passive conscripts to generic promotion for so long.

Unfortunately, proper evaluation of wool promotion is difficult. There are arguments for specialist producers to be involved in wool promotion and related marketing activities, but too often the arguments advanced for compulsory generic promotion have been trivial and lack economic substance. Detailed investigation of wool promotion is required that goes far beyond judging whether promotion is successful merely by observing increased consumption of wool in particular markets following promotion, or recognition by consumers of the 'Woolmark' symbol - the lynch pin of generic promotion of Australian wool over so many years.

Characteristics of Wool and Promotion

The overriding feature of wool so far as generic promotion is concerned is that wool is an industrial raw material. Wool is consumed in a vastly different form to that which is being promoted. This is unlike branded products promoted by private firms and other agricultural commodities where generic promotion is practised.

A fundamental question for wool promotion is how important is 'fibre' in the purchasing decisions of consumers of wool end-products? One thing is certain, retailers and consumers in world markets for wool are a lot less interested in the fibre composition of apparel and other wool end-products than wool producers in exporting countries. Interest in wool and loyalty to wool as a fibre is now possibly an exclusive preserve of elderly Australians.

A related question is whether promotion should be directed at the processing stage ('technical marketing') or at the final consumer? The answers to these questions are obviously not the same in mature and emerging markets because knowledge of wool processing and wool end-products is vastly different. In mature markets, wool has features of a 'search' good because characteristics of wool products are well known to consumers.

At its simplest, the efficacy of promotion depends upon the usefulness of the information than can be provided to consumers - whether final consumers, early stage processors or purchasers of intermediate products like tops, yarn or cloth.

A critical policy issue is to decide whether promotion effort should be directed towards new or established markets for wool. Another difficult policy issue is whether promotion effort should be directed towards new or established markets for wool. Common sense suggests that technical marketing in emerging markets provides the greatest opportunities for wool promotion to provide genuinely new information that will actually affect economic behaviour.

It is unlikely that wool promotion, however well conducted, has much to teach processors, retailers and older consumers of apparel in established markets for wool. What is at stake is the rate of decay or 'persistence' of consumer response to promotion.

Perhaps the most significant economic argument about generic promotion of agricultural products is the effect of generic promotion on the willingness and capacity of private firms to promote agricultural products on their own account. This is the familiar concept of 'crowding out', whereby an unintended effect

of intervention by Government is to drive out participation by private firms. In the case of the wool industry, the firms likely to be crowded out by generic promotion are the wool merchants, top makers, spinners and others with specialised assets linked to wool who could otherwise have a financial incentive to promote wool.

Although competition continues between these firms, brand promotion based on fibre content is no longer relevant to their business strategy. The energies of firms in the wool business are diverted from competing on the basis of service related to wool fibre per se. In fact, the way generic promotion has been conducted over many years has advantaged new firms at the expense of existing firms. Arguably, the Woolmark 'brand' has substituted for firm-specific wool brands and made it easier for new firms to become established in the markets of developed countries.

While advertising the promotion of wool may be effective in aggregate, the distribution of the gains from promotion is more controversial. Wool production and marketing is a multistage process involving producers, processors, manufacturers and retailers.

The question of interest is how the gains from promotion are distributed between participants in various stages of marketing. The answer depends on market structure and obviously will be different for wool than other commodities. As pointed out above, not all producers benefit from promotion in the same way.

Allocation of the promotion budget between the domestic and export markets is an important issue in the generic promotion of other Australian agricultural products. This is not the case for wool because the overwhelming proportion of wool is exported. In any case, Australian consumers are familiar with wool and the climate in many parts of the country is hardly conducive to high levels of wool consumption. The relatively high rates of per capita expenditure on wool promotion in Australia could be interpreted as intended to impress key payers - not local wool consumers.

Other important issues for the wool industry are allocation of promotion funds between expensive and inexpensive apparel, 'country of origin' promotion and promotion policy with respect to blends. In the past, there was a bias towards the high fashion end of the clothing industry but recent shortage of promotion funds has eliminated that luxury. These days a more pragmatic attitude is adopted towards blends. Indeed, with some risk that the closer links being established with synthetic fibre interests may further alienate traditional wool customers.

'Country of Origin' Promotion

A longstanding argument in the wool industry is whether wool should be promoted generically or by country of origin. This argument has come to a head in recent years with the collapse of the reserve price scheme. The frustration of our trans-Tasman cousins with the abysmal quality of policy making in the Australian wool industry, resulting in the demise of the reserve price scheme with its painful aftermath for New Zealand and Australian woolgrowers, is readily understandable.

Nevertheless, it is arguable that the New Zealand wool industry made the wrong decision when it decided to more or less go it alone on wool promotion. Certainly, it is not a step that should be slavishly imitated by Australia. In part, this is because the Australian wool industry is so much bigger than that of New Zealand and the Australian wool industry is oriented towards apparel wool rather than carpet wool. Specifically, country of origin promotion has intrinsic weaknesses. The role of fibre in consumer decisions about apparel is already debatable. Country of origin promotion is even more so.

When Australians can travel overseas and not need to explain the difference between Australia and Austria, country of origin promotion might begin to have a place. (Not that in any part of the world, Australia has antagonists who might react adversely to country of origin promotion.) Furthermore, wool is indistinguishable by country of origin and consumers have absolutely no protection for origin-based claims. Country of origin promotion of wool is actually deceitful. There are also good commercial reasons for processors to blend wool from different countries.

In summary, it is chauvinist nonsense to advocate country of origin promotion, which is really intended to make politicians, inside the outside the wool industry, look good and nothing else.

Concluding comments

Considerable sums are still being spent on the promotion of agricultural products. It is disappointing how little independent effort is devoted towards evaluation of promotion and how little controversy there is over compulsory levies collected from cash-strapped woolgrowers.

The justification given for promotion is usually sketchy and unsatisfactory. Evaluation of promotion could be built into the design of promotion campaigns. However, this would not solve the problems associated with compulsion because not all wool is promotable and producers have other things to do with their limited financial resources.

The approach of politicians has always been to behave as if the organised wool industry knows best. The results of that abdication of responsibility were plain to see in the parlous administration of the reserve price scheme. A concerted effort is now justified to investigate the continued compulsory collection of levies from wool growers for a promotion programme that has not been properly evaluated since the independent inquiry by the Industries Assistance Commission - now more than twenty years ago.

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