

Marketing alpaca on a commercial scale using the fibre's competitive advantage

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The marketing of our wonderful fibre today, especially preparing for the future, will take many twists and turns as we strive to sell our fleece both nationally and internationally. The below paper gives you some insights into the workings of AAFL, presenting to you an overview of where we are up to, where the fleece comes from and what we have learnt up to now.

Current situation of Australian Alpaca Fleece Ltd

Australian Alpaca Fleece Ltd is currently working with 12 main organisations, both nationally and internationally, in the commercialisation of Australian alpaca fleece.

Creswick Woollen Mills

Creswick Woollen Mills is the home of luxurious natural fibre products designed in Australia to suit Australian conditions. The Company was founded in 1947 and is located in Creswick, 120kms from Melbourne, and is now the only coloured woollen spinning mill of its type in Australia.

Creswick Woollen Mills has devoted an enormous amount of R &D, time and money to establish the Australian alpaca woollen blanket and throw rug range as a mainstream upper end retail product. They are a major supplier to David Jones nationally as well as to many specialty stores around Australia.

Jo Sharp Pty Ltd

One of the most exciting events to happen to the Australian Alpaca industry in 2006 is the launch of the Jo Sharp alpaca hand knitting yarns. Jo Sharp currently produces an amazing range of hand knitting products, and is, without a doubt now, the most creative hand knitting label in Australia.

She has produced a fantastic pattern book, now on sale in Australia and the United States, including patterns especially designed for a wide range of alpaca knitted products.

Jo's company started in Western Australia in 1992, with its first collection being designed for David Jones, and has expanded over the years to not only selling her range throughout Australia, but now to over 400 stores across America. Her pattern books have really become collector's items and they end up on coffee tables and design studios all around Australia.

Merino Gold Australia

Merino Gold, Australia's leading natural fibre knitwear specialist, has been working with Australian alpaca fleece for a number of years now, producing exceptionally beautiful and fashionable garments for men and women.

This initiative has continued and as well as their Australian operations Merino Gold is now making Australian alpaca garments in China, where they have manufacturing facilities. R & D has also continued with alpaca fibre now being blended with silk, cotton and wool.

Australian Carpet Makers

Australian Carpet Makers has been manufacturing mainly quality New Zealand wool products for over 100 years, and whilst the development of Australian alpaca carpets has not been easy, after two years of R & D, they have definitely struck the right formula.

Australian Carpet Makers currently produce a cut pile and "sisal look" 100% alpaca carpet. They are getting a huge amount of interest and support from designers, architects and the general public.

Kelly & Windsor Australia Pty Ltd

Since 2003, Kelly & Windsor has continued to launch new and innovative products based around their range of alpaca quilts, underblankets and pillows.

A combination of innovation, design, product development and market awareness has created a completely new range of unique and exclusive bedding products made from Australian alpaca fleece, which has significant potential in Australia and overseas markets for years to come.

This range now includes both 100% and blended alpaca bedding products under the labels of Alpaca Classic, Alpaca Gold, Alpaca Light and Alpaca Country. In particular, their extraordinary lightweight Alpaca Light quilts are uniquely suited to sleeping in warmer climate areas.

Design Spun (96) Ltd

With the recent demise of the Australian spinning industry and opportunities to spin yarn here, we have been fortunate to be able to spin yarn through Design Spun, which is situated in Napier, New Zealand.

They have perfected, through a lot of time, money and R & D, not only spinning but dyeing of alpaca yarns in many different textures and blends in hand knitting yarns, fine worsted yarns, boucles and brushed, which are used in both homewares and fashion.

Design Spun has become an important part of our business and we work closely with them to develop and introduce new yarn products for the future.

Zenger (Aust) Pty Ltd

One of our most recent partners, Zenger has joined with AAFL to develop the homeware and fashion wholesale area using Australian alpaca products. We are working with them to develop direct links with duty free stores around Australia as well as working directly with department stores in China on specific lines. It is particularly exciting to see the rapidly growing numbers of tourists from China keenly seeking out the range of alpaca quilts produced by Zenger in Australia to take home as gifts.

Zenger's wholesale arm covers quilts, underblankets, pillows, blankets, throw rugs, and women's and men's fashion products and accessories. Together we are developing lots of new products for the future and will end up with a complete range of Australian alpaca products, especially geared for export to China.

Pussyfoot Hosiery Pty Ltd

After many attempts to come up with the "right sock" that maintains both soft handle and performance, at long last we are producing this year, with the expertise of Pussyfoot Hosiery, a range of men's and women's dress and work socks in a blend of alpaca and super-wash wool.

This range will be available throughout Australia and overseas and we will be introducing in the future blends of alpaca/silk and alpaca/cotton. The yarn is currently spun in Peru and China.

Pussyfoot has great experience in the hosiery market, retailing their label through David Jones stores as well as the Hush Puppy label.

Hysport International Pty Ltd

We are developing a range of accessories with Hysport International, including beanies, gloves, scarves, shawls and baby blankets as well as fashion knitwear, which will be launched in the latter part of 2006. This range of merchandise will be produced from 100% fine Australian alpaca, spun and dyed in Peru.

The need to have products produced in Australia and with an Australian label is vital to our marketing; especially in the areas of export and duty free shopping, and Hysport International together with its "whole garment technology" offers flexibility and quick delivery that is well suited to our needs.

Masterweave Textiles Ltd

Situated in Masterton, New Zealand, Masterweave and AAFL have worked together successfully for a number of years to develop a range of throw rugs and scarves in a large variety of colours over brushed and boucle yarns.

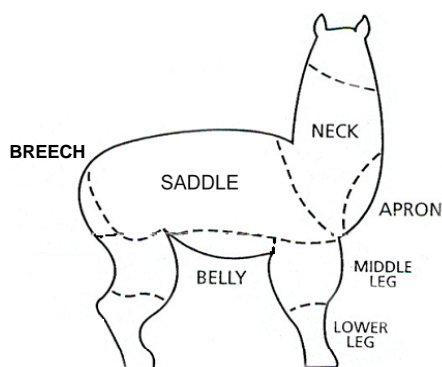
These products have been very successfully marketed both nationally and internationally and currently we are unable to meet demand. The products created by Masterweave are produced in the full range of natural alpaca colours as well as now checked and striped designs.

Inca Group and Michell Group - Peru

With the world reality of manufacturing, we needed to have the ability to access products that are not available to be produced in Australia or New Zealand.

The Peru based Inca Group and Michell Group, who both have decades of expertise in producing, finishing and dyeing alpaca products and currently purchase some 70-80% of the world's alpaca clip, have been close allies in working with us to manufacture our Australian alpaca products. They have also supplied us with small quantities of yarns and tops made from Australian alpaca to develop the market both here and overseas.

Where the most common lines of fleece comes from on our animal (subject to quality of animals)



Saddle	huacaya and suri - all fleece lines
Neck	huacaya - all fleece lines, pieces, D length suri - all fleece lines, D length, pieces
Apron	huacaya - pieces, LCV, NCV suri - all fleece lines, pieces, D length, NCV
Middle leg	huacaya - pieces, LCV, NCV suri - D length, pieces, NCV
Lower leg	huacaya - LCV, NCV suri - D length, NCV
Belly	huacaya - LCV, NCV suri - D length, pieces, NCV
Breech	huacaya - all fleece lines, LCV, NCV suri - all fleece lines, D length, pieces, NCV

Products created from alpaca fleece

Homewares

- quilts
- underblankets
- pillows
- blankets
- throw rugs
- jacquard rugs
- baby blankets
- carpet
- carpet rugs
- cushion covers

Fashion

- men's & women's fashion
- men's & women's scarves
- shawls
- beanies
- gloves
- ponchos
- socks
- fabric
- coats
- underwear

Other

- hand knitting yarn
- machine knitting yarn
- inner soles
- soft toys
- tops
- dehaired fleece
- sliver

Australia's alpaca fleece availability and supply to AAFL, 2005/2006

Australian Alpaca Association 2006 National Conference



State	Registered alpacas	Approx. kg shorn	AAFL rec'd 2005/06
WA	5,360	10,720	4,280
SA	7,030	14,060	4,300
TAS	1,543	3,086	537
VIC	18,280	36,560	15,370
NSW	19,752	39,504	14,017
QLD	3,009	6,018	616

* Totals as at 20 June 2006

* Approx. Kg shorn based on average 2kg per animal

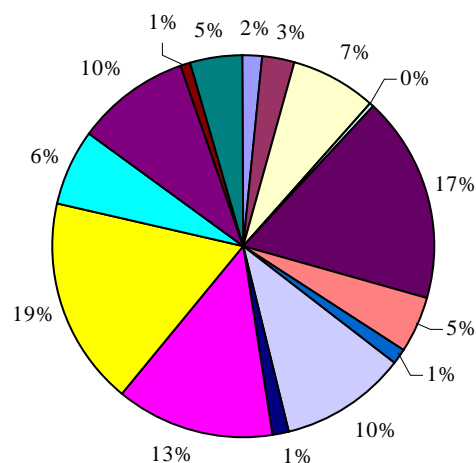
* Multiply owned animals – 820 (1,640kg available fleece)

* Other fleece received by AAFL 05/06 – 1,861kg

- Approximate number of registered animals in Australia (as of 20/6/06) – 55,794
- Approximate fleece available in Australia, excluding non registered animals (based on 2kg per animal) – 111,588kg
- Total fleece received at AAFL (as of 20/6/06) – 40,979kg
- Anticipated fleece receipt for AAFL 2005/2006 (classed) – 45,000kg +
- Approximate percentage received by AAFL per state (as of 20/6/06) –
 - WA 10%
 - SA 10%
 - TAS 1%
 - VIC 38%
 - NSW 34%
 - QLD 2%
 - Other 5%
- AAFL target for 2006/2007 – 65,000kg

Percentage of fleece received by AAFL for 2005/2006 per Region

- 2% - NSW Central Coast & Hunter
- 3% - NSW Central Western
- 7% - NSW Hawkesbury & Blue Mtns
- 0% - Sth QLD & Nth NSW
- 17% - NSW Southern
- 5% - NSW Syd, Coast & Highlands
- 1% - Queensland
- 10% - South Australia
- 1% - Tasmania
- 13% - VIC Central
- 19% - VIC Eastern
- 6% - VIC Western
- 10% - WA Central
- 1% - WA Southern
- 5% - Other



What AAFL have learned about the commercialisation of the Australian alpaca fleece industry

Global reality of manufacturing today

After spending considerable time working in and examining Australian and New Zealand manufacturing opportunities plus travelling extensively to Peru, Italy and China it became clear to me that if AAFL wanted to continue to advance the manufacturing of Australian alpaca in premium products, we needed to seek a balance of both local and offshore manufacturing.

A crucial ingredient to ensure that we were competitive with world standards was the need to draw our fleece prices back into line with current world prices. This gave us the opportunity of placing production at the best locations to obtain our requirements, whilst ensuring that our Australian customers were not disadvantaged by using Australian alpaca – or alternatively forced to buy their alpaca fleece cheaper overseas. In addition, our charter has always been not just to sell our fleece, but to value add to protect both our intellectual property and to enable an acceptable profit margin to be achieved.

Manufacturing in Australia is AAFL's number one priority, however we soon learned that the opportunities that now exist here, especially in the fine worsted area, were limited.

While China will certainly be a huge force in this area over the next few years they are currently concentrating their efforts on basic commodities with huge volumes, like wool, as opposed to boutique markets like our exotic fibre. And whilst I don't believe this will last very long, there is probably a two to three year timeframe before China becomes heavily involved with alpaca and other luxury fibres.

This window of opportunity fitted in with Peruvian capabilities, where we found we could sell them our scoured fleece and buy back products like yarn, accessories, men's and women's fashion and tops, made from Australian alpaca. This has given AAFL a whole new edge and flexibility with manufacturing and wholesale opportunities, hence joining the global loop:

- Australian alpaca, made in Peru, sold in China.
- Australian alpaca, made in Peru, sold in Australia and other countries.
- Australian alpaca, made in Australia, sold here and exported.
- Australian alpaca, made in New Zealand, sold in Australia and exported.

Why export overseas?

Currently the product range I described earlier is sold three main ways:

1. To traditional retail outlets, like David Jones, Myer, Harvey Norman and selected stores.
2. To duty free shops around Australia.
3. Through alpaca breeder owned specialty stores around Australia.

With the volatility of the Australian retail market with its constant ups and downs and taking into consideration our projected fleece production growth, AAFL has had to look further a field to develop our business.

In the medium to long term future we will not be able to cope with the steadily growing volume of fleece produced by only selling within the Australian market, especially at the premium end of the market. Looking abroad the Chinese middle class market represents strong opportunities for us. Not only do they have the potential to give us much needed sales but also production numbers, giving us needed manufacturing scale and efficiency.

Our AlpacaMark is our biggest asset and is now increasingly recognised around the world, being registered in a number of countries. It is pivotal to our marketing and promotion. Like fine Australian Merino wool, Australian alpaca fleece should be recognised as the best fleece in the world for fineness and handle and this is our goal.

Building the fleece industry for the future

Increasing value-adding to give the grower margins and dividends

There is a real need for the Australian alpaca industry to have control over its future expansion, especially in the area of fleece price and return to growers. Whilst we are all inevitably broadly tied to prevailing world alpaca fleece prices the ability to be able to return dividends to growers who support the fleece industry is vital to the success of the whole alpaca industry in Australia. To minimise costs that are passed on to the growers who supply fleece the costs of transport, shearing and classing must be closely controlled.

Overall whilst a continuing rise in fleece supply volumes will help this area, more needs to be achieved to make the fleece an additional bonus to the sale of an animal. AAFL is currently exploring a number of initiatives that will assist also.

Controlling our own destiny

Making money out of the sale of fleece without value adding, bearing in mind what our suppliers can purchase on the world market, is very difficult given Australia's labour costs. There is however, an opportunity to tier our value adding over a number of stages so contribution to gross profit can be achieved.

- Our own wholesaling.
- Value adding fleece before on selling
 - Scouring
 - Top making
 - Dehairing
 - Yarns, etc.
- Developing wholesale brands for other companies
- Supplying alpaca breeder's specialty shops around Australia
- A direct AAFL retail sale and product display outlet at Sunshine

By developing these areas AAFL should be able to be profitable provided there is an increase in fleece supply volume. This profit can then be passed back to the growers by way of dividends and as well as hopefully some improvement in the price paid for the fleece they have supplied, this should represent an improved return. However, an additional less understood tangible benefit applies to all AAA members, and that is that the ongoing viability of a national alpaca fleece industry forms one important leg underpinning the value of the stud industry in which I'm sure most members of my audience has a significant investment.

Ongoing R & D programs

Having the resources to continue to promote and support alpaca research and development programs is vital to the health and well-being of the alpaca industry, and from AAFL's perspective there is a particular need to consider the coloured fleeces that currently represent some 70% of the Australian clip. While it's clear from customer demand that the drive for white fleece will strongly continue, for many years to come there will be large quantities of fawns, browns, blacks and greys and all these will need to be catered for.

Also, as the suri clip grows, there will be more opportunities to develop this alpaca line and give it the exposure it deserves. Whilst this area does not give immediate returns financially, from AAFL's perspective, we recognise that it is vital for suri not to be overlooked or many opportunities will be missed.

Developing a marketing fund promoting the fibre's competitive edge

The marketing of the Australian AlpacaMark, as well as both Australian alpaca fleece and products made out of Australian alpaca all constitute vital cogs in the expansion of our industry. We are hopeful this year to set aside some dollars from every product we sell to be directed to marketing.

Australian Alpaca Association 2006 National Conference

Over the last 10 years of the Australian Alpaca Co-operative Ltd and now AAFL very little has been spent on marketing promotion. In relation to the thousands of products that have been produced, the percentage spent on marketing is very small.

Marketing not only assists in selling our animals and fleece but most importantly assists in developing the external perception/awareness of our industry. We want to be perceived as a new, fast growing industry that is well organised, dynamic in its outlook and involved in the breeding and selling of end products that are positioned in the high quality luxury area of the market.

Overall we all want the alpaca industry to be seen as providing not only an enjoyable lifestyle opportunity but also as a financially rewarding venture offering good opportunities for investment. Without continued marketing by all those involved in our industry we will not be able to maintain the price of our animals or the demand for our fleece that we enjoy today.

Much has been written and discussed about the best way to market our industry and its products. Clearly there are many facets that contribute to the overall outcome, but I must say in conclusion that having quality products sold by upmarket retailers and being worn by Australians has been, I sincerely believe, one of the most important contributions to developing the perception and awareness of our wonderful alpacas.