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NEW ZEALAND MERINO: PURSUING ACCELERATION THROUGH COLLABORATION

INTRODUCTION

In 2010, the New Zealand Merino Company Limited (NZM) secured a combination of government and private funding to help it further advance its efforts to revolutionize the country's sheep industry. Specifically, the company's top priorities were to expand the international market for New Zealand Merino wool, grow New Zealand's fine wool supply base, and drive greater wealth to the country's sheep farmers by extending the NZM model to their other sheep-based products, such as meat, leather, and lanolin.

To address the priority of expanding the international market for the country's fine Merino wool, NZM decided to convene a meeting of its key brand partners to get their input, seek new ideas, and attempt to engage them in working together toward this mutually beneficial goal. Even though they were competitors to varying degrees, they had all invested heavily (or were planning to do so) in products made from the wool procured through NZM, and they all had a direct interest in seeing demand for these products increase. NZM hoped that they would be willing to think collectively and consider collaborating for the benefit of all players in the category. However, NZM was unsure how the brand partners would feel about joining forces and the extent to which they could agree on specific messages and activities that would help accelerate the growth of the New Zealand Merino wool category.

THE COUNTRY

New Zealand is the world's youngest country, meaning that it was the last major land mass to be settled just over 1,000 years ago. The first inhabitants were the Maori, who migrated from Polynesia. European migration began with missionaries and whalers in the late 1700s, but accelerated rapidly after New Zealand became a British colony in 1840. In 1853, the British

Lyn Denend and Professor Baba Shiv prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. An expanded version of the case, which includes photographs and videos, is available online at <http://www.zque.co.nz/casestudy/>.

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government granted the settlers the right of self-governance. In 1907, New Zealand became an independent dominion. Formal independence was achieved 40 years later, in 1947.¹

New Zealand is located in the South Pacific Ocean, about 2,000 km (1,200 miles) to the southeast of Australia (see **Figure 1** for more information about the country and **Exhibit 1** for a map). The country is made up of two main islands, along with a number of other smaller islands. As a whole, New Zealand is smaller than Italy, but larger than the United Kingdom. The country's South Island has a mountainous ridge running along its center called the Southern Alps, with Mount Cook (the tallest mountain) climbing more than 12,000 feet above sea level. The North Island is somewhat flatter and characterized by volcanic terrain in some areas.

Figure 1
New Zealand at a Glance

Population: 4.2 million
Total Land: 267,000 square km
Capital: Wellington
Climate: Temperate with extreme regional variations
Official Language: English
GDP at Purchasing Power Parity: \$115.3 billion (2009 estimate)
Per Capita GDP: \$27,400 (2009 estimate)
GDP Growth: -1.6% (2009 estimate)

Source: "New Zealand," CIA World Factbook.

Traditionally, New Zealand's economy was based on agriculture, including the production of wool, meat, and dairy products. Today, agriculture is still the country's primary export industry. However, it now accounts for 4.6 percent of GDP, compared to industry at 23.7 percent (food processing, wood and paper products, textiles, machinery, transportation equipment, tourism) and services at 71.7 percent (financial services, infrastructure, transportation).² Tourism, in particular, is playing an increasingly important role in the economy. In 2010, it was estimated to account for approximately 9.1 percent of New Zealand's GDP.³

In 1984, the New Zealand government launched a major restructuring of its economy to boost the country's financial health and improve its global competitiveness. Key structural reforms involved the liberalization of import regulations, tariff reductions, the elimination of controls on wages, prices, and interest rates, and the dismantling of agricultural subsidies. As a result, New

¹ "Country Review: New Zealand," Country Watch, 2010, http://www.countrywatch.com/country_profile.aspx?vcountry=125 (November 1, 2010).

² "New Zealand," CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/nz.html> (September 21, 2010).

³ "New Zealand," Wikipedia.org, http://en.wikipedia.org/wiki/New_Zealand (September 21, 2010).

Zealand experienced more than a decade of economic expansion until just before the global financial crisis, which began in 2008.⁴

Given its relatively small domestic population, the country remains highly dependent on exports to countries such as Australia, the United States, Japan, and the U.K.⁵ This position leaves the economy vulnerable to financial downturns that affect its trading partners, as well as fluctuations in the prices of its commodity exports.

On a positive note, the country as a whole enjoys a positive reputation. In January 2009, New Zealand Trade & Enterprise (NTZE) commissioned a U.S. consumer research and consulting firm, The Hartman Group, to examine North American consumer perceptions of New Zealand (and more generally of sustainability). Through a series of ethnographic focus groups and retail buyer interviews, researchers determined that most consumers have relatively limited knowledge about New Zealand. However, the vague information they possess is overwhelmingly positive. Overall, they believe that products from New Zealand perform well against factors such as environmental regulation, resource consumption, biodiversity, and animal welfare. These attributes are linked to the perception of more sustainable, higher quality products, which creates an advantage for New Zealand companies in positioning their exports in the North American market.⁶

THE ANIMAL

The Merino is a type of sheep known for having some of the finest and softest wool of any breed. Physically, Merinos can be recognized by their crimped fleece and distinctive facial features, along with the large, curled horns that are characteristic of many of the males. Even though most Merinos appear deceptively grey, their fleece is bright white just beneath the surface.

Merino sheep, which are one of the oldest breeds in the world, have historically been raised for the desirability of their fine wool. Wool fiber thickness is measured in microns. Merino fibers typically range from 13-24 microns and break down as follows (note that an average human hair is approximately 60 microns):

- Medium Merino – 21-26 microns
- Fine Merino – 17.5-21 microns
- Superfine Merino – 15.5-17.5 microns

⁴ “Background Note: New Zealand,” U.S. Department of State, <http://www.state.gov/r/pa/ei/bgn/35852.htm#econ> (September 21, 2010).

⁵ “Economy of New Zealand,” Wikipedia.org, http://en.wikipedia.org/wiki/Economy_of_New_Zealand (September 21, 2010).

⁶ “Highlights from North American Consumers: Key Drivers, Sustainability and Perceptions of New Zealand,” The Hartman Group, 2009, <http://www.nzte.govt.nz/explore-export-markets/Export-Markets-Resources/Documents/North-American-Consumers-NZ-sustainability-2.pdf> (September 21, 2010).

By comparison, wool fibers used for carpets tend to be 35-45 microns.⁷ The finer and whiter the fiber, the softer, smoother, and more versatile the wool. As a result, Merino has a variety of uses, but is most often made into apparel with the finest fibers rivaling the luxury of cashmere.

Although traditional Merinos are sometimes slower growing than those sheep bred for meat, their coats are nearly three times as dense. A typical Merino ewe yields approximately 3-6 kg (6.6-13.2 pounds) of wool each year.⁸ (See **Exhibit 2** for a primer on sheep terminology.)

Merino wool fibers are typically long and strong. However, as with all wool, the fibers can be weakened if the sheep is stressed while growing its fleece. Stress, which is caused by inhumane treatment or unusually harsh environmental conditions (e.g., drought), results in thin spots in the fiber where it is likely to break during processing.

Merino sheep are an especially resilient breed, which means they can be raised in geographies that are too extreme for other domesticated breeds without becoming stressed. For example, Merinos thrive in New Zealand's South Island high country. The natural characteristics of their wool keep them cool in the summer when temperatures climb to 35 degrees Celsius (95 degrees Fahrenheit) and warm in the winter when they drop to -15 degrees Celsius (5 degrees Fahrenheit).⁹

Merinos require year-round attention, with the farm year punctuated by certain seasonal milestones:¹⁰

- **Spring** – Sheep are brought to lower country for shearing to relieve them of their heavy winter coats. The ewes are shorn first (before their lambs are born), followed by the hoggets, and wethers. Lambing begins.
- **Summer** – Lambs are weaned from their mothers and drenched (given an oral medication to reduce infection by worms or other parasites). Ewes and wethers are moved to higher country.
- **Autumn** – Ewes are brought back down to lower country for flushing (providing them with a rich diet prior to mating to positively affect their fertility). Mating occurs.
- **Winter** – All sheep are brought to the most temperate locations at lower altitudes where feed supplements can be provided and they can be moved quickly when major storms are predicted.

Each spring, this cycle begins again with shearing. After a Merino is shorn, the wool goes to a classer, who sorts the fiber based on a visual inspection of its attributes and intended uses. It is

⁷ “Wool,” Wikipedia.org, <http://en.wikipedia.org/wiki/Wool> (September 20, 2010).

⁸ “Sheep Farming,” Sheep World, <http://www.sheepworld.co.nz/SheepFarming.htm> (September 20, 2010).

⁹ “FAQs,” Merino Inc., www.merinoinc.co.nz/Factsheets/Merino_FAQ.pdf (September 20, 2010).

¹⁰ “A Year on a Merino Property,” Merino Inc., http://www.merinoinc.co.nz/Factsheets/Merino_Farm_Year.pdf (September 20, 2010).

“Basic Information About Sheep,” Sheep101.info, <http://www.sheep101.info/sheepbasics.html> (September 20, 2010).

then pressed into bales that include the wool of 30-60 sheep.¹¹ The bales are moved to broker stores where fibers from each bale are tested for quality (primarily length, strength, micron, and yield). Yield is calculated after taking into account wool grease and natural contaminants such as dirt vegetable matter. The wool is then sold through traditional commodity auctions or branded forward contracts (see the section called **The Company** for more information about contracts). Before the fiber can be used to create a finished product, it must first be scoured (cleaned), carded (blended), and combed to prepare it for spinning into yarn. Then it can be knitted or woven into finished fabrics, which are then made into finished goods.

THE WOOL INDUSTRY

Although fine Merino wool makes up only a small portion of all wool produced, it is useful to understand the overall wool category. Each year, the global wool industry produces approximately 1.3 million metric tons of wool. Approximately 25 percent of that comes from Australia, 18 percent from China, 11 percent from New Zealand, 3 percent from Argentina, and 1 percent from South Africa. A handful of other countries produce small amounts of the world's total. Approximately 60 percent of the wool produced globally is used to make apparel each year.¹²

Historically, wool has been sold as a commodity (in fact, by some accounts, it was the first commodity to be traded internationally).¹³ Commodities are products used in the production of other goods that are sold by many different companies with little perceived variation in the quality of those products across suppliers—for example, gold, wheat, and oil. In general, the price of a commodity is determined by the market as a whole (i.e., supply, demand, and events in the external environment that affect these factors). For instance, in a recent industry publication Rabobank, a leading international bank specializing in food and agriculture, noted that wool was one of the agricultural commodities that was hardest-hit by the global credit crisis. According to the report, the discretionary nature of demand for woollen products means that wool consumption (and its price) remains closely aligned with global economic activity.¹⁴ Another key factor affecting demand for wool has been the introduction and widespread adoption of synthetic fibers as a substitute.

As the demand for wool has declined, so too has its production. A dramatic decline in the price of wool also played a role in driving farmers from the industry. In late 1966, the commodity price of wool dropped a startling 40 percent.¹⁵ Since then, the price has generally continued to trend downward. As farmers found it increasingly difficult to profitably produce and sell their wool, they began switching to other agricultural pursuits, such as raising sheep for meat.¹⁶ In the

¹¹ “How Does Merino Fiber Get from the Sheep’s Back to Mine?” Merino Inc., http://www.merinoinc.co.nz/Factsheets/Merino_Broker_Process.pdf (September 21, 2010).

¹² “Wool,” op. cit.

¹³ “Meat, Milk, or Wool,” Sheep 201, <http://www.sheep101.info/201/meatwoolmilk.html> (September 22, 2010).

¹⁴ “Wool Demand Up as Global Economic Recovery Gathers Pace,” Rabobank press release, January 25, 2010, <http://www.rabobank.com.au/News-and-Events/Media-Releases/2010-News-Archive/Pages/media-release-20100125.aspx> (September 22, 2010).

¹⁵ “Wool,” op. cit.

¹⁶ “Merino Wool Fiber Definition,” Apparel Search, http://www.apparelsearch.com/definitions/fiber/Merino_Wool_Definition.htm (September 22, 2010).

early 1900s, selling wool was the most profitable way for a farmer to make a living from a sheep operation. Today, many farmers are finding meat and dairy operations to be substantially more lucrative.

Some farmers who continue to grow wool have been able to improve their financial position by shifting into the production of finer wool, which can be used to create softer, lighter-weight, premium products. For instance, the wool from Merino sheep can be sold for up to 10 times more than the wool from other breeds of coarse-fiber sheep.¹⁷ In Australia, the world's largest producer of Merino wool, this breed comprises more than 85 percent of the country's flocks.¹⁸ In turn, the country produces approximately 80 percent of the world's Merino supply,¹⁹ which is worth well over US\$1 billion. South Africa is the second largest producer of Merino, even though it only generates 1 percent of the world's total wool output. New Zealand is the third largest global Merino supplier. While the country has an estimated 40 million sheep, only about 3 million are Merinos.²⁰ New Zealand's Merino wool market is currently valued at approximately US\$100 million. (See **Exhibit 3**.)

For decades, the majority of wool has been sold via commodity auctions. At auction, the price for strong wool (wool used to make carpets) might be less than US\$1 per pound. In the New Zealand Merino industry, forward contracts are becoming increasingly common as a more sustainable alternative to wool auctions (see the section called **The Company** for more information about such contracts). Yet, approximately 85 percent of Australian wool is still sold via the auction model.²¹ In contrast, less than half of all New Zealand Merino wool now changes hands this way.

THE NZM COMPANY

The New Zealand Merino Company Limited (NZM) is an integrated sales, marketing, and innovation company focused on transforming the country's Merino sheep industry.²²

NZM is headquartered in Christchurch in New Zealand's South Island. The organization was started in 1995 by Merino growers who wanted to lift New Zealand's Merino wool out of the commodity basket through marketing and differentiation. As demand and prices for coarse wool declined, many farmers transitioned to raising Merinos for their finer, more valuable fiber. However, New Zealand's Merino farmers were still struggling due to the fluctuating prices that are characteristic of any commodity market. In total, the country produced 8,000 metric tons of clean Merino per year—just 2.7 percent of the world's 290,000 clean-ton Merino supply. Against this backdrop, the New Zealand clip had no identity of its own and was often blended with fiber from other countries. Moreover, the growers had only a limited understanding of the

¹⁷ "Merino Wool," Woolpower, http://www.woolpower.se/en/asp/material_2.asp (September 22, 2010).

¹⁸ Ben Lyons, "Australian Merino Wool," Proceedings of the Symposium on Natural Fiber, Australian Wool Foundation, <ftp://ftp.fao.org/docrep/fao/011/i0709e/i0709e11.pdf> (September 22, 2010).

¹⁹ "Merino Wool Fiber Definition," op. cit.

²⁰ "FAQs," op. cit.

²¹ "Wool," op. cit.

²² Background information drawn from "New Zealand Merino Company Brief," The New Zealand Merino Company Limited, as well as other information provided by NZM.

market for Merino fiber, and little ability to influence it. As a result, they faced unsustainable prices, an increasing cost of production, and diminishing returns.

As John Brakenridge, NZM's CEO, recalled around the time the organization got started, "Fine wool in Australia was measured as the single most volatile commodity, behind sugar. So you're talking about a very, very volatile commodity."²³ NZM needed to find a way to minimize that volatility and make Merino wool a more stable, profitable enterprise in New Zealand. This would involve defining a model that would directly shatter a series of prevalent industry myths:

1. There will only be one price for wool—the commodity price
2. The contract prices will only ever equal the average commodity price
3. The market will not honor contracts when the commodity market fluctuates in their favor
4. Fiber ingredients cannot be differentiated
5. Any value added will be captured by others further through the supply chain
6. Growers get little or no value from investments in marketing

The first step toward this end was to develop a strategy for differentiating New Zealand Merino wool from other types of Merino available in the marketplace. The route NZM chose to accomplish this was to identify leading brands in its targeted market segments and then match the needs of these companies to the attributes of its wool. Specifically, NZM had to define those benefits that would distinguish New Zealand's offering from Australian and South African Merino and make the product highly desirable to buyers. "No matter what we do to try to increase demand, it's not going to have an effect on our price unless we can differentiate and brand our fiber," Brakenridge said.

Through extensive market research, along with grower involvement, NZM was able to define a unique identity for its offering (see the section called **Product and Partners** for more details). It also crafted a marketing story that would support a price premium at retail that could be shared among players in the supply chain. NZM would further support this price premium by investing heavily in research and development (R&D) and market development activities that would help retailers and brands boost demand for products made with New Zealand Merino wool.

To capture and share the additional value associated with price premiums, NZM developed a new business model for the industry. According to Brakenridge, "Prior to 1997, auction was the only method for the sale of Merino fiber in New Zealand." Farmers paid a traditional broker roughly 4 percent of their gross income to represent and sell their wool through this mechanism. NZM's business concept is to transition a significant percentage of New Zealand's Merino wool into sales executed via forward contracts. Once retailers are convinced of the superior attributes of the NZM offering and its other associated benefits, they are willing to enter into and honor long-term contracts to ensure their supply. These contracts are not priced directly in relation to historic and forecast commodity prices. Rather the price-points are negotiated between NZM and its brand partners at a level that allows growers to receive a fair, equitable, and sustainable return for their fiber and manufacturers to be successful over the long term. The premium nature of the product gives NZM the leverage it needs to make this model work.

²³ All quotations are from interviews conducted by the authors and/or meetings with representatives from NZM, unless otherwise cited.

Growers under contract supply wool to one or more brand partners according to clear specifications at a fixed price—generally, one to three years in advance. These contracts are based on the farmers’ historical production to help ensure that they can meet the specifications from the wool produced on their property. However, given the biological nature of wool production, there is a risk that growers will not always be able to meet their contractual obligations. In these cases, NZM sources wool on the commodity auction market to fulfill the requirements. If the commodity price of the wool is less than the contract price, the growers are paid the difference. If it is higher, then the growers compensate NZM accordingly.

To build its business model, NZM had to align the somewhat adversarial members of the supply chain. “What we wanted to do was a complete contradiction to the traditional way commodities make their way through a supply chain. The whole essence of a commodity supply chain is about short-term transactions, where somebody's trying to ride a commodity market, bring volatility, and not let anybody else know what’s going on further up or down the chain,” explained Brakenridge. Farmers generally worked in isolation from wool buyers (and vice versa), and this same lack of visibility characterized all of the other relationships between players in the ecosystem (shearers, processors, designers, and manufacturers, among others). NZM had to persuade them that there was more to be gained by openly sharing information and working together to benefit the industry overall. “This required a huge mindset and cultural shift,” recalled Brakenridge. In the end, NZM was able to stimulate increased cooperation among key external players. The organization also drove some consolidation in the industry. “Historically, you’d have government-funded or levy-collected R&D, marketing, and traders all working separately,” he said. “Now we’ve got marketing, creative services, R&D, and administration all working together as cogs. We’ve brought them all in-house.”

NZM also had to convince growers to pay for its services. To cover its costs, which included marketing New Zealand Merino wool as a premium product, developing relationships with prospective buyers, negotiating long-term supply contracts, and performing R&D to help its retail and brand partners succeed, NZM would have to charge nearly twice as much as traditional brokers. “So if you sell your wool through us, in round terms, it costs you about eight percent of your gross income,” noted Brakenridge, “whereas, if you sell it through our competitor, it costs you about 4 percent. It was up to us to justify that differential by persuading growers that, over time, we would generate a lot more revenue for them.”

NZM executed its first direct supply contract in 1997, which brought together New Zealand Merino growers and John Smedley Limited, one of the world’s premier knitwear manufacturers (see **Products and Partners** for more information about NZM’s brand partners). With the contract in place, NZM marshaled its resources to making John Smedley and its Merino products more successful. Brakenridge explained his philosophy: “When we walk into work each day, we ask ourselves, ‘How do we add value to the retail brand?’ because this is the only way that we can get more money back through the entire supply chain to the growers.”

More than a decade after its founding, NZM transacts approximately 85 percent of all Merino wool grown in New Zealand with turnover of more than US\$85 million. More than 50 percent of this volume changes hands through direct supply contracts, some of which extend up to 5

years in the future. As a result, NZM growers have greater price stability that allows them to more effectively manage their farms and make important capital investment decisions. In exchange, NZM's brand partners receive sustainable pricing, guaranteed supply, consistency of supply, traceability, and fit-for-purpose processing consignments.

In 2010, based on NZM's success to date, the New Zealand government committed more than US\$10 million to help the organization continue revolutionizing the country's sheep industry. NZM and its supply chain partners contributed another US\$15 million to the five-year initiative. The program, referred to as NZSTX (The New Zealand Sheep Industry Transformation), has multiple objectives. However, its top priorities are to expand the international market for Merino wool, grow New Zealand's fine wool supply base, and drive greater wealth to the country's sheep farmers by extending the NZM model to their other sheep-based products, such as meat, leather, and lanolin.²⁴

NZM PRODUCT AND PARTNERS

As noted, one of the initial aspects to making the organization's new business model work was defining an identity for New Zealand Merino wool that was clearly differentiated from other sources and could command a premium price. NZM initiated this exercise by researching the inherent benefits of the Merino fiber itself and by branding the fiber in a way that would encapsulate these attributes and protect New Zealand Merino from competitive or substitute offerings.

While traditional wool is widely perceived as being scratchy, hot, heavy, and smelly, New Zealand Merino wool has numerous natural advantages:

- **Moisture management** – The complex natural structure of Merino fibers gives them the unique ability to both absorb and repel moisture. When it comes to shower/rain resistance, a Merino garment can hold up to 30 percent of its own weight in water without feeling damp. It can also absorb vapor from the skin during activity, increasing the time before sweat condenses to a liquid form and makes a garment uncomfortable.
- **Softness/comfort** – Coarse wool fibers push into the skin and irritate nerves close to the surface; fine Merino fibers bend against the skin and do not aggravate the nerves.
- **Thermal control** – Merino provides natural temperature control by absorbing and releasing moisture. For example, in cool, wet conditions, the Merino fibers generate a small but perceptible amount of heat as water vapor interacts with their chemical structure. This heat prevents the wearer from becoming chilled.
- **Insulation** – The natural crimp (wave) and resilience of Merino fibers make Merino garments warm and comfortable to wear by trapping air next to the skin.
- **Fire safety** – Unlike synthetics, wool is naturally flame retardant.
- **Odor control** – In contrast to synthetics, Merino wool has a unique ability to minimize the build-up of body odor during activity.
- **Easy care** – Merino is naturally resistant to shrinkage and wrinkles.

²⁴ "\$36 Million Revolution for the NZ Sheep Industry," Scoop Business, May 27, 2010, <http://www.scoop.co.nz/stories/BU1005/S00856.htm> (September 23, 2010).

The NZM team further evaluated what distinguished New Zealand Merino from fine Australian and South African wool. What they found was that New Zealand Merino is superior when tested for its whiteness and brightness. This attribute increases the potential color choices when dyeing the wool. It also improves the product's ability to retain color without fading. New Zealand fibers are also long and strong, which increases their durability, enhances their ability to stay smooth and soft, and decreases the likelihood of pilling. Finally, NZM validated that the country's Merino sheep are raised in a more responsible and sustainable manner than Merinos in other countries.

Based on this information, NZM developed an "ingredient brand" called Zque. Wool that meets Zque standards is the highest quality natural Merino fiber available in New Zealand. The label is also meant to give buyers confidence that they are procuring materials that give their products *substance* in the following areas:

- **Environmental integrity** – Any Merino carrying the Zque badge must be compliant with New Zealand's Resource Management Act, Biosecurity Act, and Conservation Act. During Zque grower audits, farmers are also asked questions regarding any other on-farm environmental initiatives they may be undertaking.
- **Animal welfare** – Sheep, dogs, and other farm animals must be cared for according to the standards outlined in New Zealand's Animal Welfare Act and the codes that set forth standards for the welfare of sheep. Farmers must also record and produce (on request) records of all animal health treatments. The practice of mulesing is not permitted on Zque accredited farms. During farm audits, sheep are inspected to ensure their condition indicates adherence to these requirements. (See **Exhibit 4** for information about mulesing.)
- **Social responsibility** – All farmers must be in compliance with New Zealand's Occupational Safety and Health and Employment Relations Act. Compliance with these standards is audited during farm inspections.
- **Economic sustainability** – Zque fiber is only available via contract, which means that its price is set between NZM, the brand (buyer), and the grower. The price provides all parties with certainty and stability on which they can base their business plans and forecasts.
- **Traceability** – Zque fiber is traceable from the grower, through the supply chain, to the buyer, and back. This two-way visibility is unique in New Zealand agriculture and has resulted in long-term relationships, direct lines of communication, and a shared sense of pride between growers, brand partners, and their end markets.

NZM works with the third-party accreditation provider, AssureQuality New Zealand Limited to perform the on-farm inspections referenced above, so as to ensure credibility and robustness to the on-farm platforms underpinning Zque.

By positively addressing these factors in a certifiable manner, Zque appeals to the IQ/Minds (intelligence quotient) and EQ/Hearts (emotional intelligence quotient) of brands and consumers alike. As Brakenridge pointed out, "A lot of retail brands are very superficial now. There's nothing underneath them." The Zque badge provides brands with a compelling story they can

share with consumers about the substance of their products to help engender increased brand loyalty.

In terms of who would be most likely to respond favorably to Zque, NZM's research indicated that it should focus on brands operating in the growing "lifestyles of health and sustainability" or LOHAS market. These consumers were characterized as being active, involved, passionate, influential, principled, responsible, self-confident, discerning, sophisticated, and having a relatively high discretionary income. In the United States alone, this market was estimated to be more than US\$200 billion in size. Brands targeting LOHAS consumers fell into several different categories:

- **Active outdoors** – Knitted garments for the active outdoors market (note that many brands and garments in this segment are increasingly seen as being fashionable as well as functional).
- **High-end hosiery** – Knitted garments, particularly socks.
- **Luxury suiting** – Woven garments, primarily men's and women's suits.
- **Knitted fashion** – Fashion garments such as knitted jumpers and dresses.
- **Baby wear** – Knitted garments and bedding for infants.
- **School uniforms** – Woven garments for use by private schools for student's uniforms (particularly in Japan).
- **Bedding** – Mainly knitted blankets or wool-filled pillows and duvets.
- **Interior textiles** – Woolen throws, rugs, and upholstery.

To pursue the brands that fell into these categories, Brakenridge described NZM's approach: "We looked at the segmented market, we took the attributes that we had learned about the fiber, and we lined them up so that it became more like an a la carte menu. And we customized our message for each market segment. Then we tried to identify the leader in each category, or if there wasn't a leader we had to define one. Next we did some international market research in a qualitative manner for these companies and came up with prototypes that we could take to them. When we went to visit people, we went there with prototypes and said, 'Look, here's your product. If you differentiate it with the Zque and/or the New Zealand Merino label, here's some market research that validates what that would do for your brand.'"

Over time, this approach allowed NZM to build a portfolio of leading brand partners that included Designer Textiles International, Ibex, Icebreaker, Johnstons, John Smedley, Loro Piana, Reda, and SmartWool (see **Exhibits 5** through **12** for brand partner profiles).

THE BRAND PARTNER SUMMIT

After NZM was successful in gaining its NZSTX funding, the team needed to plot a course forward toward achieving the program's goals. To address the priority of expanding the international market for Zque wool, the company decided to convene a meeting of its key brand partners to get their input, seek new ideas, and attempt to engage them in working together toward this mutually beneficial goal.

Even though they were competitors to varying degrees, they had all invested heavily (or were planning to do so) in products made from Zque wool, and they all had a direct interest in seeing demand for these products increase. NZM hoped that they would be willing to think collectively and consider collaborating for the benefit of all players in the category.

NZM would call the brand partner meeting a “Thinkering Summit,” which referred to the intersection of creative thinking and discovery through doing (tinkering). Brakenridge’s hope was that the group would come together to “build and think,” (a form of strategizing through the use of prototypes).

The theme for the meeting would be “Acceleration through Collaboration: Designing a Zque Blueprint that Accelerates Brand Partner Growth in the U.S.” The NZM team chose to focus on expanding New Zealand Merino sales in the U.S. market as a first step for a couple of reasons. First, all of NZM’s brand partners had a significant presence in U.S. markets or had aspirations to establish one. Second, the U.S. had a large population of LOHAS consumers, as confirmed by market research recently commissioned by New Zealand Trade and Enterprise (NZTE). (See **NZM Products and Partners** for more information.)

Eight core team members from NZM would participate in and help orchestrate the summit. The invitees would include representatives from a number of the organization’s brand partners, New Zealand’s Ministry of Agriculture and Forestry (MAF), NZTE, and Stanford University. After the invitations were issued, everyone confirmed that they were very enthusiastic about participating (see **Exhibit 13** for a list of attendees). All were sending at least one representative with the exception of NZM’s two Italian partners (Loro Piana and Reda). These two companies would be unable to attend due to commitments at key tradeshows, but both would send a personal letter of support.

The NZM team convened the summit in Palo Alto, CA due its proximity to a number of thought leading organizations such as Apple, Facebook, Google, and IDEO. In this setting, the team would also be able to involve the thought leaders in marketing from the Stanford GSB, including Professor Baba Shiv, with whom it had been working on an informal basis over the past year. For a venue, the team rented a vacant retail store (along with the space adjacent to it) at the “Town and Country” shopping center near Stanford’s campus. One idea that the NZM team had brainstormed was to develop temporary retail stores in targeted “micromarkets” where NZM’s brand partners could collectively display and sell their products. Consistent with the thinkering philosophy, NZM decided to prototype one of these stores and use it as a ‘set’ for the meeting - to provide a hands-on experience and inspire attendees to expand the “realm of the possible.” The retail space next door would be used as a reception area.

The first morning of the event started with a breakfast. To evoke people’s positive perceptions of New Zealand as a beautiful, natural environment, the team covered the floor of the reception area in real grass that led to a sand beach, and everyone was encouraged to leave their shoes at the door. The walls were lined with bamboo and images of picturesque New Zealand landscapes. To showcase the warm, friendly hospitality for which the country was known, the NZM team brought two of its local caterers to Palo Alto. Their role was to provide the participants with fresh New Zealand delicacies throughout the summit. As breakfast was coming to a close, the

guests were surprised with a performance by three traditional Maori dancers. Afterwards, the dancers welcomed each participant with a customary Maori greeting called *hongi*, which requires the two people to press their noses together.

At this point, the group moved next door where the floor was covered in a luxurious, white shag-pile carpet made from New Zealand Merino wool. Most of the participants took seats on the inviting carpet or in chairs that had been placed throughout the space. However, the leaders of the five primary brands (Ibex, Icebreaker, John Smedley, Johnstons, and SmartWool), along with Brakenridge, were given elevated, makeshift “thrones” at the head of the room as the leaders of their collective future.

After showing a video on the New Zealand experience to keep participants grounded in the country’s allure, Brakenridge led a discussion about why they were all together and what effective collaboration could mean to the participants in the room. The group offered the following early ideas:

- Broader acceptance for New Zealand Merino wool.
- Capturing U.S. market share from consumers currently buying synthetics.
- Sharing best practices in the industry through “coopetition” or “cooperating to compete.”

The group agreed that there was a time to compete and a time to come together, and that in some instances there was room for multiple brands in the stores that they sell through. Primarily though, they needed help to get consumers to understand the benefits of wool. Then it would be up to the brand partners to carve a unique identity for their own products.

One brand partner commented that New Zealand Merino was a great product that elicited an emotional response from customers. Consumers, he noted, become passionate in a unique way once they experience the product. For this reason, the key question that the group needed to answer together was:

How do the brand partners take that experience to the next level?

NZM referred to the concept of taking the consumers (and the industry) to the next level as “Crossing the Chasm.” It was agreed that those who touched and, even more importantly, *experienced* Zque products did not just convert to customers—they became passionate advocates for the product, singing the praises of New Zealand Merino wool and encouraging their friends to try it. As NZM had learned, individuals in the initial target market of early adopters became intellectually interested when the benefits of Zque were explained to them. Once they touched a Zque product, they began to get excited. In situations where they actually had the opportunity to use the product, then they become passionate. Now was the time to mobilize these early adopters to convert their non-user peers.

The challenge was that the devoted group of “converts” in the U.S. was currently small relative to the total addressable market. Not only did relatively few people understand the benefits of New Zealand Merino wool, synthetic substitutes were significantly less expensive—for example,

a basic synthetic short-sleeve base layer might cost \$19-25, while a similar shirt made from New Zealand Merino might cost approximately \$60.

The group came back to the fact that they had all been spending substantial time, energy, and money promoting the benefits of wool versus synthetic fibers, as well as positioning New Zealand Merino as a premium wool fiber. Participants concurred that their messaging around the fiber story was similar and, as a result, their efforts were duplicative. It would benefit all brand partners if NZM would market the fiber and the benefits of wool so that the brand partners could focus on promoting their own brands rather than the attributes of Zque.

As the brand partners talked about their own goals for the next three to five years, two important goals emerged at the category level. The subsequent discussion focused on two key points:

1. The basics of Merino need to be known and acknowledged by the general consumer base. To achieve this goal, two hurdles would need to be overcome. First, few people knew about Merino wool and its benefits. Second, even if they did, they needed to better understand why they should pay more for one type of Merino over another.
2. In order to support the brand partners' planned company growth, there needed to be a consistent, guaranteed wool supply at the specifications they required. This meant that NZM would have to make more high-quality New Zealand Merino wool available.

One of the first tactical issues the group discussed the fundamental messaging it might use to reach U.S. consumers. For NZM and the brand partners to grow the category for Zque wool, it was imperative that the messaging was perfected and told consistently across the category. There were four potential aspects to the fiber story:

- **Wool** – Breaking traditional stereotypes associated with wool and differentiating it as a better, natural alternative to synthetic fibers.
- **Merino** – Explaining that Merino is a type of wool, and that it is preferable to all other wool fibers.
- **New Zealand** – Positioning New Zealand Merino as superior to all other types of Merino and capitalizing on the “goodwill” associated with products from New Zealand.
- **Zque** – Promoting Zque as the highest quality New Zealand Merino available to consumers and explaining its advantages when it comes to performance and sustainability.

The challenge was that explaining all four aspects to consumers was difficult to accomplish in a concise, easy-to-understand message. The brand partners would have to decide which factors were most important in the messaging hierarchy, and which could be reserved for more detailed, second-level communications.

Many companies sold products made from Merino wool. For example, \$40 Merino sweaters were routinely available at the Gap and Banana Republic. The thing that differentiated all of the brand partners from these other companies was their use of Zque Merino from New Zealand. This branding would ensure that value was captured by the group, rather than generic Merino (or

even generic New Zealand Merino) offerings, and that the group would be protected from any detrimental actions of competitors in the Merino sector (e.g., producing garments from lower-quality Merino that resulted in a negative customer experience).

The primary focus of Zque marketing to date had been around its sustainability attributes, but increasingly this attribute was becoming a “must-have,” rather than a true differentiator in the brand partners’ market segments. NZTE’s recent market research in the U.S. confirmed that consumers were more concerned with quality than sustainability (although sustainable products were often considered of higher quality). The Zque story needed to be widened to include other quality and performance characteristics that resonated with consumers such as not sweating or not smelling, and the emotional connection that occurred when the customer experienced the feel of the garment.

Brakenridge asked participants what they thought about including New Zealand as part of the core message. Everyone seemed to believe that associating New Zealand with the product would be a positive from the customer’s perspective. However, some members of the group expressed concerns that this term could be too limiting if the demand for high-quality Merino surpassed the country’s available supply. NZM was actively recruiting more New Zealand growers to join its supply-base, but the possibility remained that NZM would potentially need to expand its model outside New Zealand to keep pace with demand, or as a means of insurance in case the country was ever struck by a disaster that dramatically affected the entire Merino wool supply (e.g., drought or disease).

Another topic that generated a great deal of dialogue during the summit was which particular tactics to use to get a shared message out to consumers and turn them into converts. Given the tactile nature of the product, and the propensity of potential consumers to be converted once that had touched the products (or reached their “delta” point), everyone agreed that they needed to create more opportunities for consumers to touch and feel Zque wool (if not experience the product for themselves). They also agreed that they should consider a combination of traditional and novel channels that included physical, virtual, and event elements.

Another key feature of the model was entering micromarkets—specific cities with a high population of target qualified customers—where the brand partners could work together to significantly raise awareness of their collective and individual offerings. Participants suggested a range of cities across the U.S.

The team defined certain filtering criteria to help decide which cities would make the best micromarket locations. These included:

- **Per capita virality** – The speed and extent to which information and ideas spread virally throughout a population.
- **Brand partner activity in the city** – Do interested consumers have local options for buying brand partner products?
- **Presence of early adopter** – Is there a strong base of forward-thinking risk takers who are likely to try new things?
- **Affluence** – Ability of the population to understand, appreciate, and afford the product.

In terms of having a physical presence in a micro market, the group's initial reaction to NZM's temporary "pop-up" retail store concept was that it was an interesting idea. However, while everyone loved the way the prototype store looked (and was impressed by what the NZM team had accomplished!), they considered that perhaps, even in a high-traffic location, a fixed retail space might not reach enough potential customers.

Building on the concept, another idea was to create a mobile store—in a bus or the trailer of an 18-wheel truck—that could move from one high traffic area to another. Like the temporary retail space idea, the mobile solution would be designed to feature multiple tactile experiences, interactive consumer education materials, and the opportunity to make purchases (or be directed to participating retailers that carried the products of the brand partner).

Another potential concept was to approach established retailers that carried active outdoor products as well as luxury knitwear about setting up in-store areas where consumers could become better acquainted with (and buy) Merino products from all the brand partners.

From a virtual perspective, there was a lot of interest in figuring out how to start a viral movement around the Zque offering. The group was energized by examples of what had been accomplished by organizations and companies alike (e.g., Coca-Cola and its Coke Happiness Machine video). Over the years, the brand partners had all collected testimonials and stories from existing customers praising their products and had used them to help spread the word, but none of them had successfully catalyzed any large-scale viral activity.

In terms of events, participants had numerous suggestions, particularly in the active outdoors segment (e.g., marathons, bike races, and other sporting activities). Physically, the collective could bring its mobile store to an event or set up a booth. They also agreed that they should strive to incorporate a virtual element into each event and find ways to reward consumers who participated in virally amplifying their message.

At the conclusion of the summit, just before the participants adjourned to relax with drinks and a friendly game of cricket, Brakenridge and team recapped what had been discussed and outlined an action plan for moving forward. The brand partners were encouraged and invigorated by the progress that had been made, and looked forward to implementing the action plan. To NZM's delight, the final question was not if there should be another summit; but rather when and where would the next summit be?

CLASS PREPARATION

If you have carefully reviewed the materials in the case, you should be able to describe:

1. The basic attributes of Merino wool and what differentiates it from other wool fibers.
2. The basic Merino wool supply chain.
3. Factors that make New Zealand economically vulnerable as a country.
4. The key challenges facing the New Zealand wool industry.
5. How the NZM model has helped address these challenges to date.
6. NZM's goals as outlined as part of the NZSTX program.
7. What Zque is.
8. The target market segments and customer characteristics of those most likely to respond to Zque.
9. Basic similarities and differences among NZM's major brand partners.
10. Basic U.S. consumer perceptions of New Zealand and its products.

In addition, please come to class prepared to discuss the following questions:

1. What specific goal do you think NZM's brand partners can/should agree on?
2. What messages should the group emphasize in its collaborative communication?
3. What specific tactics should they try for getting these messages out?
4. Based on the issues and opportunities discussed at the brand partner summit, what path forward would you recommend to NZM?

Exhibit 1 Map of New Zealand



Source: "Background Note: New Zealand," U.S. Department of State, <http://www.state.gov/r/pa/ei/bgn/35852.htm#econ> (November 1, 2010).

Exhibit 2

Understanding Sheep: It's All in the Teeth!

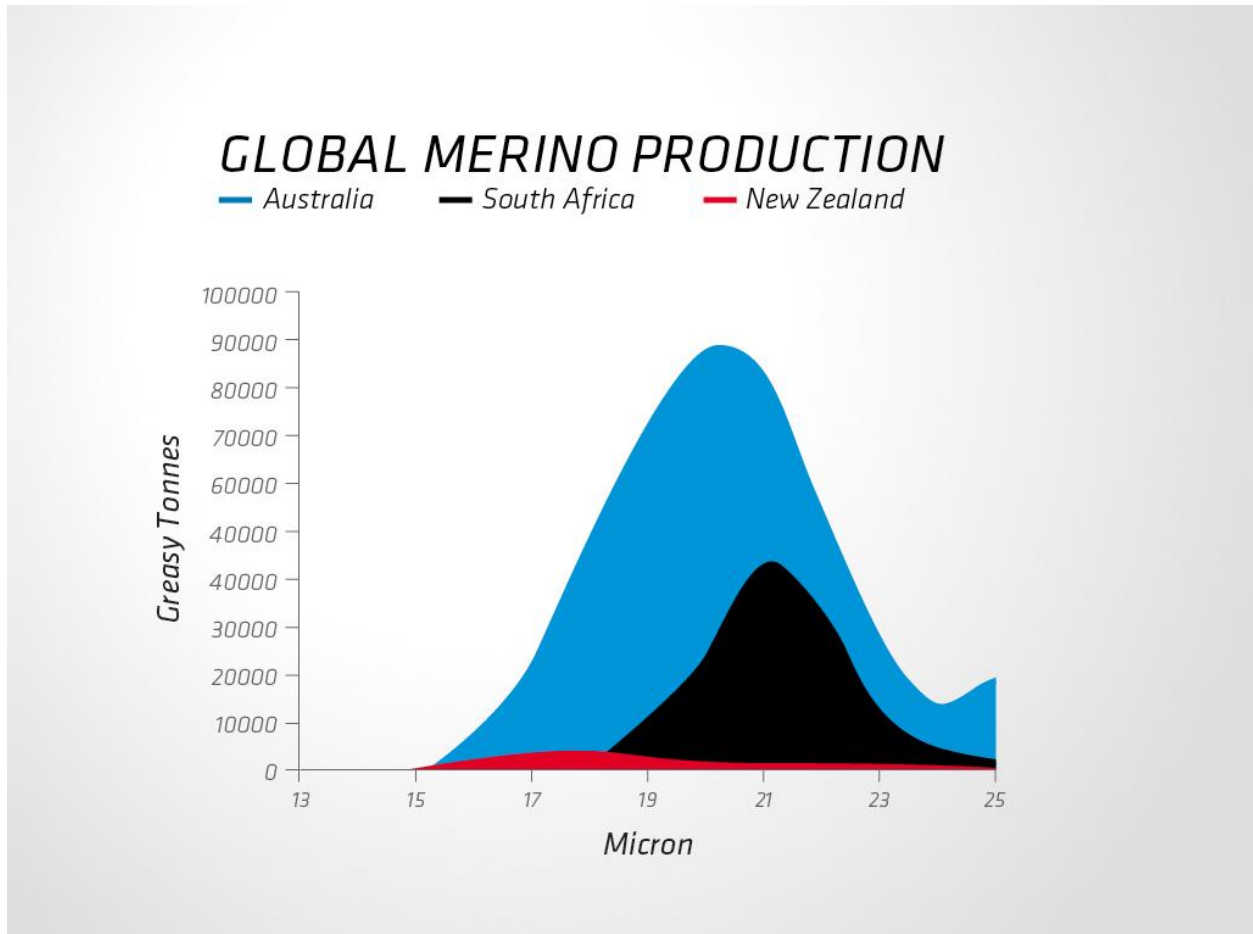
The terms used to refer to sheep at different stages of their lifecycle are based on their teeth rather than their age.

- **Lamb** – Refers to newborn male or female sheep before they cut their first two permanent teeth (typically between 10 and 18 months of age). Lamb also refers to the flesh of young sheep when it is sold as meat. Currently, as soon as a lamb cuts its first two teeth, its meat is downgraded to mutton.
- **Hogget** – A young sheep with two teeth that has not yet been shorn.
- **Ewe** – A female sheep with four or more teeth.
- **Ram** – A male sheep with four or more teeth that has not been castrated and is used for breeding.
- **Wether** - A male sheep with four or more teeth that has been castrated.

The productivity of sheep is also linked to their teeth. Sheep tend to be most productive between three and six years of age. Productivity tends to decline around year seven when their teeth begin to break and wear down, which makes it difficult for them to maintain their body condition. The general life expectancy of a domesticated sheep ranges from roughly 6 to 12 years; Merinos typically live for 7 to 9 years.

Source: Information provided by New Zealand Merino.

Exhibit 3 Global Merino Production



Source: Information provided by New Zealand Merino.

Exhibit 4 A Note on Mulesing

Mulesing is a controversial procedure that involves the removal of skin around the buttock of the Merino to help reduce the incidence of flystrike (a parasitic disease that can be deadly). The practice is generally accepted as an effective way to prevent flystrike. However, because the procedure is performed without anesthesia, animal rights groups have recently deemed it inhumane and unnecessary. In Australia, organizations such as PETA (People for the Ethical Treatment of Animals) have mounted opposition in the form of protests and boycotts. The industry association known as the Australian Wool Innovation (AWI) initially pledged to phase out mulesing by 2010 but then rescinded its commitment in mid-2009, which exacerbated the conflict. In New Zealand, many Merino growers took a different approach and voluntarily adopted alternatives to mulesing in an effort to distance themselves from the controversy. The majority of NZM growers have ceased to use the practice, and it is strictly prohibited on Zque-certified farms. This approach has further differentiated New Zealand Merino from Australian Merino. Another benefit is that the animals no longer experience the stress associated with mulesing, which helps keep their wool strong and undamaged.

Source: "Mulesing," Wikipedia.org, <http://en.wikipedia.org/wiki/Mulesing> (September 30, 2010).

Exhibit 5 Design Textiles International Profile

Designer Textiles International (DTI) is a New Zealand-based Merino fabric and garment manufacturing company. It provides a wide range of services to its retail and wholesale brand partners, from fabric, design, and production coordination to fully labeled and packaged garments. As of 2010, the company operated manufacturing facilities in New Zealand and Sri Lanka.

DTI is privately held and does not disclose detailed financial information. However, Malcolm Walkinshaw, the company's CEO advised its annual turnover to be approximately US\$31 million. DTI specializes in producing fabrics and garments made from New Zealand Merino wool. Merino products account for approximately 75 percent of its yearly sales (the remainder comes from other non-Merino fashion fabrics and garments). Its largest market is the U.S. (30 percent of sales), followed by New Zealand (25 percent), Europe (25 percent), and Australia (20 percent).

The company's primary focus is on the active outdoor market segment, serving customers such as Ibex and SmartWool. More recently, it has also begun targeting the fashion market with a wide variety of innovative new Merino-based fabrics. According to a company profile, DTI differentiates itself through fabric innovation. "We actively work to develop innovative Merino fabrics that assist to position our customers differently from their competitors," noted Walkinshaw. The company also prides itself on providing its customers with complete supply chain solutions, from the contracts it forges with Merino growers through NZM to its strong relationships with contract apparel-making facilities.

Although DTI does not sell its fabrics and garments directly to the end consumer, it markets the fabric under the MAPP ingredient brand (MAPP stands for Merino Advanced Performance Programme). "[MAPP] tells the Merino story and adds credibility to the fabric source," Walkinshaw explained. This brand was developed to provide DTI customers and their end consumers with confidence that only premium New Zealand MAPP Merino fabrics are used in their garments. The company's relationship with NZM adds value to the MAPP brand "by providing us with a compelling New Zealand Merino story that focuses on the holistic eco positioning of the product, including its sustainability and animal welfare concerns," said Walkinshaw.

Sources:

"About the Company," Outdoor Retailer Summer Market, <http://ors.goexpsoftware.com/2010/goExpo/exhibitor/viewExhibitorProfile.php?id=494> (October 19, 2010).

Designer Textiles International at a Glance

Market Segment: Active outdoors

Products: Premier knitted Merino fabrics and garments

Percent made from Merino wool: 75 percent

Annual sales: ~US\$35 million

Go-to-market strategy: Through retailers and wholesale brand partners

Employees: 125

Location: Based in Auckland, New Zealand

Founded: 1965

Ownership status: Privately owned and operated

“Function and Performance Meet Fashion,” LA Textile Show, June 2006,
http://www.fabriclink.com/news/Assets/LA_textile_show2.pdf (October 19, 2010).

Information provided via email by Malcolm Walkinshaw, CEO of Pod Ltd. which includes Designer Textiles (October 19, 2010).

“MAPP Story,” <http://www.mapp.co.nz/story/dti.php> (October 19, 2010).

Exhibit 6 Ibex Profile

Peter Helmetag and John Fernsell founded Ibex in 1997. For years, Helmetag had worn garments made from wool when he went mountain climbing because he knew they would keep him warm and dry (he was introduced to the fiber's benefits by his grandfather, who owned a wool mill). Fernsell, an avid backcountry skier, was always on the lookout for an alternative to synthetic fabrics that would perform better in changeable outdoor conditions. When the two men came together, they defined a vision for a company that would bring "new" wool garments—made from finer, softer, high-performance wool—to other climbers and backcountry skiers. By 2010, their vision had become a reality. Ibex had grown to nearly 50 employees with annual sales between US\$10-\$20 million.

The Ibex product range includes men's and women's apparel, jackets, accessories (hats, scarves, gloves), and underwear. In terms of its primary customers, "We have a strong lifestyle component to the business, but we really design for outdoor enthusiasts," said Fernsell. Approximately 70 percent of the company's offerings are made using New Zealand Merino wool.

In terms of Ibex's go-to-market strategy, Fernsell noted, "We're unique from [the other NZM brand partners] in that about half of our revenues come from direct-to-consumer sales." Ibex is aggressively expanding its direct channels because, he continued, "We feel that the closer we are to the consumer, the better off we are." In 2009, Ibex's online business grew by 47 percent, despite the economic downturn. In 2010, the company opened its first dedicated retail store in Boston, Massachusetts.

Another 40 percent of Ibex's business comes from sales through retail partners; the remainder is from small, miscellaneous channels. Ibex's customer base is strongest in the U.S., which accounts for 90-95 percent of annual turnover, but the company has begun focusing on international markets.

When asked what makes Ibex unique from its competitors in the active outdoor market segment, "Customer service and products are our two key strengths," Fernsell said. Ibex is passionate about providing the best customer service possible. "We treat the customer like gold," he stated. When it comes to products, "Our offering is much broader than our competitors. We knit and do more fabrics than all of them combined.... And our focus from day one has always been on products. We get up in each morning thinking about what cool new things we can make today and how can we lead the market. We're all about products."

Ibex at a Glance

Market Segment: Active outdoors

Products: Apparel, jackets, accessories, underwear

Percent made from NZ Merino wool: ~ 70 percent

Annual sales: US\$10-\$20 million

Go-to-market strategy: 50 percent direct-to-consumer sales; 40 percent through retail partners

Employees: 50

Location: Based in White River Junction, Vermont

Founded: 1997

Ownership status: Privately owned and operated

The company started working with NZM about nine years ago. Fernsell and his colleagues were introduced to the NZM team by Designer Textiles International after Ibex moved some of its knitting to New Zealand. “Today, probably 60 percent of our fabric is made in New Zealand,” Fernsell commented. The relationship the company has established with NZM is important to Ibex because it provides Ibex with the highest quality fiber available in the market. “I’m always looking for points of differentiation,” he said. “If we’re competing on price alone, we’re in trouble because we’re never going to be the low-cost producer. We want to make a high quality product. We want to make a beautiful product. We want to be differentiated. Zque and New Zealand Merino give us another point of differentiation that’s important.”

Sources:

Information provided by Ibex president, John Fernsell, via a phone interview (September 30, 2010).

“Our History,” Ibex, July 7, 2007, http://www.ibexwear.com/ibex_buzz/2007/07/in-the-begining-our-histo.html (September 30, 2010).

Exhibit 7 Icebreaker Profile

Icebreaker was the first company to develop a merino fiber layering system for the outdoors. The company was formally founded in 1994, but got off to an illustrious start when Sir Peter Blake, a legendary New Zealand yachtsman, wore prototypes of its early Merino wool garments when he set a world's record circumnavigating the globe in 1993. After his voyage, Blake reported that, "Icebreaker is superior in every way to anything I've ever worn. I wore it for 40 days and 40 nights and it didn't itch or get whiffy."

This high-profile testimonial, along with his own experience with the garments convinced Jeremy Moon to join forces with the Merino farmers making the original Icebreaker apparel. As the company's managing director, Moon helped launch the company across New Zealand and Australia. By 2010, Icebreaker had expanded to 37 countries across Europe, Asia, Australia, and North America. According to an article in TIME, its annual sales were more than US\$100 million.

Icebreaker targets its products at active-minded people who enjoy the outdoors, and its brand has evolved to represent an exploration of "our relationship to nature, and to each other." As stated in the Icebreaker corporate profile, "This phrase is at the heart of our company." To meet the needs of its consumers, Icebreaker has engineered more than 25 distinct Merino fabrics, which it uses to create high-performance, "edgy" underwear, mid-layer, and outerwear products that combine "nature's work with human technology and design," said Rosanne Palmisano, the company's global vice president of marketing.

In terms of its sales channels, "Our primary focus is wholesales sales to retailers," noted Palmisano. This channel currently accounts for approximately 80 percent of sales, with the company's products carried in over 2,000 retail stores around the world. However, Icebreaker also owns six of its own retail outlets in target outdoor markets such as Auckland, New Zealand, Portland, Oregon, and Montreal, Canada. It plans to open another store in New York City's SoHo neighborhood in November 2010, and several others are in the planning stage. Icebreaker also makes its products available via online sales, but so far only in the U.S. "We expect to expand [our online presence] to other markets in the near future," Palmisano added. In combination, the company's own retail stores and its online business accounts for 20 percent of sales. According to 2009 year-end sales, 37 percent of Icebreaker's business comes from New Zealand and Australia; the U.S. is its second largest market at 30 percent.

Icebreaker at a Glance

Market Segment: Active outdoors

Products: Apparel, underwear, coats, accessories, socks.

Percent made from NZ Merino wool: 100 percent

Annual sales: US\$100 million

Go-to-market strategy: 80 percent through retail partners; 20 percent direct to consumer

Employees: 250

Location: Based in Wellington, New Zealand

Founded: 1994

Ownership status: Privately owned and operated, with wholly owned subsidiaries in the U.S., Canada, Australia, Germany, Switzerland, France, and Eastern Europe

One way that Icebreaker differentiates itself from its competitors in the active outdoor market is as a first-mover and innovator in the segment. “We talk about how we pioneered the outdoor Merino category, and the innovation we have brought to Merino—from the lightest-weight performance fiber on the market to the all-over print on Merino (Bodyfit+),” said Palmisano. The company also emphasizes its focus on quality. “We’re 100 percent focused on Merino. It’s all we do, so we know the fiber inside and out,” she noted. “We buy our wool directly from the sheep’s back and control quality every step of the way.” Palmisano mentioned that the company even works with farmers to directly influence how sheep are mated and cared for to help improve the strength and caliber wool. Finally, she stated, “We share our commitment to having a transparent, sustainable supply chain through our Icebreaker Baacode traceability system.”

Icebreaker was among the first companies to begin offering multiyear contracts to New Zealand’s Merino farmers. According to one article, the commodity purchasing process “almost broke Icebreaker in the late 1990s when its products began to unravel because of inconsistent fiber quality.” So, Moon saw the value of offering price premiums to growers who could produce fiber that uniformly met the company’s stringent requirements. Today, NZM facilitates wool contracts with the growers in partnership with Icebreaker. This includes price and volume negotiations, testing of Merino against preset standards, management of batching, and monitoring of on-farm ethics. “The [NZM] philosophy of nurturing long term relationships is completely aligned with the Icebreaker set of values,” said Palmisano. “They have worked with us closely in the past 15 years to create a healthy co-dependent relationship with our growers.”

Sources:

“Athlete Reviews: Peter Blake KBE,” Icebreaker, http://www.icebreaker.com/site/aboutus/reviews_peter.html (October 5, 2010).

Bill Saporita, “Icebreaker Is a Natural,” *TIME*, March 22, 2010, <http://www.time.com/time/magazine/article/0,9171,1971425,00.html> (October 6, 2010).

“Company Profile,” Icebreaker, <http://media.icebreaker.com/index.php?s=18> (October 5, 2010).

“Icebreaker (Clothing),” Wikipedia.org, [http://en.wikipedia.org/wiki/Icebreaker_\(clothing\)#cite_note-5](http://en.wikipedia.org/wiki/Icebreaker_(clothing)#cite_note-5) (October 6, 2010).

Information provided by Icebreaker’s Global Vice President of Marketing, Rosanne Palmisano, via a phone interview (October 14, 2010).

Joseph B. Lassiter, III and Dan Heath, “Icebreaker” The U.S. Entry Decision,” Harvard Business School, July 17, 2005, http://hbr.org/product/a/an/806006-PDF-ENG?cm_sp=doi--case--806006-PDF-ENG&referral=00103 (October 5, 2010).

Exhibit 8 Johnstons Profile

Throughout its long history, the Johnstons motto has been “only the best is good enough.” The company was founded in 1797 in Elgin, Scotland in the midst of the industrial revolution. Initially, Johnstons focused on producing linen, flax, and tobacco, but in the early 1800s it entered the wool industry. In 1851, its mills were the first to weave cashmere in Scotland and the company has remained dedicated to processing luxury fibers since then. Johnstons produces the majority of its products in the United Kingdom as a way of ensuring that they are consistently of the highest quality.

Today, Johnstons offers a broad range of men’s and women’s knitted clothing, accessories (hats, gloves, scarves, bags), home furnishings (blankets, throws), and fine fabrics. It dedicates approximately 70 percent of its business to manufacturing these products for exclusive private label customers, such as Burberry, Hermes, and Chanel. The remaining 30 percent of the business is focused on selling products under the Johnstons brand through major retail partners, its own retail stores, and a small, but growing online presence. Johnstons three retail stores in Scotland (which are located in Elgin, St. Andrews, and the Northumberland market town of Corbridge) account for roughly 10 percent Johnstons’ branded product sales.

Johnstons estimates that its annual sales are US\$66-\$71 million. Exports represent approximately 30 percent of this total. The company’s largest international markets are Europe (48 percent) and the U.S. (30 percent).

Across its channels, and in all of its geographic markets, Johnstons primarily targets customers in the premium leisure apparel sector. When describing what makes the company’s offering unique, James Dracup, group managing director, referred to “honest luxury” that appeals to its customers because the products are “authentic, ethical, and sustainable.” Johnstons further differentiates itself from competitors in this market segment through the superior quality and performance of the fiber it uses.

As of summer 2010, Johnstons did not have any significant products in its range made from New Zealand Merino wool. However, it was in discussions with NZM to begin procuring Merino through the company. Dracup had learned about Zque and was attracted to the fiber. He also welcomed a partnership with NZM due to the “authentic, ethical, high-quality supply” it offered, along with its “ethos of community and partnership, not just purely selfish gain.”

Johnstons at a Glance

Market Segment: Luxury knitwear

Products: Cashmere, Merino, and woolen knitwear, cloth, and accessories

Percent made from NZ Merino wool: TBD

Annual sales: US\$66-\$71 million

Go-to-market strategy: 70 percent private label manufacturing; 30 percent sales of Johnstons brand through retail partners, the company’s own retail stores, and an online presence

Employees: 800

Location: Based in Elgin, Scotland

Founded: 1797

Ownership status: Privately owned and operated

Sources:

“Chronology,” Johnstons, <http://www.johnstonscashmere.com/index.php/about-us/chronology> (September 28, 2010).

“History,” Johnstons, <http://www.johnstonscashmere.com/index.php/about-us/history> (September 28, 2010).

Information provided by Johnstons group managing director, James Dracup, via email (September 28, 2010).

Exhibit 9 John Smedley Profile

The company John Smedley was founded in 1784 in Derbyshire, England by Peter Nightingale and his associate, the first John Smedley. Initially, the two men started a spinning mill that produced muslin and spinning cotton that could be used on hand frame looms. When the second John Smedley took over the company in 1825, he launched a vision for bringing spinning, knitting, and manufacturing under one roof. In doing so, he significantly expanded the company's operations, installed leading-edge technology, implemented positive working conditions considered unusual for the time, and established the company's reputation for using only the highest-quality raw materials and production processes.

From a product perspective, John Smedley specialized in hosiery and underwear for generations. In the 1930s, the company expanded into nightwear, swimwear, and outerwear. By the 1960s, its main focus shifted to outerwear with the launch of its signature sweater collection. At this point, the company also began selling its product overseas. As of 2010, more than 70 percent of all John Smedley products are exported to more than 35 countries across the globe. However, 98 percent of its entire line is still produced in England.

In 1995, John Smedley began making products with New Zealand Merino wool. To ensure the highest quality fiber from traceable sources, the company was among the first to begin entering into forward contracts with Merino growers, with the assistance of NZM. John Smedley actively promotes the quality and sustainability of its Merino to its customers. For instance, on its website the company boasts, "We... have Zque accreditation which guarantees that we have fair and ethical practices in the way we work with our suppliers and the way they treat their sheep, as well as the quality of our wool."

John Smedley differentiates itself from other companies in the luxury knitwear segment through its focus on quality—from using the finest materials to finishing every garment by hand. It also emphasizes the unique styling of its garments, which provide "a modern take on timeless designs." Finally, the company continually innovates and adapts to expand its range in an effort to bring customers the ultimate in luxury. For instance, in 2009, John Smedley launched an exclusive line of garments using 13.5 micron New Zealand Merino fiber, which is finer than cashmere. According to the company, this yarn is so rare that it is only produced by 0.0013 percent of the world's sheep population.

John Smedley at a Glance

Market Segment: Luxury knitwear

Products: Sweaters, shirts, and other outerwear, underwear, and accessories made from New Zealand Merino wool and Sea Island cotton

Percent made from NZ Merino wool: Not available

Annual sales: Not available

Go-to-market strategy: Through retail partners and direct to consumer activities

Employees: Not available

Location: Based in Derbyshire, England

Founded: 1784

Ownership status: Privately owned and operated

In terms of sales and distribution, the company opened its flagship John Smedley retail store on Brook Street in London's West End in 2000. John Smedley also makes its products available through high-end retailers, such as Barneys, Bergdorf Goodman, Harrods, and Selfridges, as well as via an online store. Over the coming months, John Smedley intends to increase its direct-to-consumer sales by growing its online presence and opening more of its own retail stores. It also hopes to further expand into "emerging luxury markets" (China, India, Russia, and Brazil).

Sources:

"Contemporary Design," John Smedley, <http://www.johnsmedley.com/contemporary-design/> (October 25, 2010). Information provided by Andrew Caughey, managing director of John Smedley, at the NZM brand partner summit (September 8, 2010).

Sean O'Grady, "Minor British Institutions: John Smedley," *The Independent*, October 17, 2009, <http://www.independent.co.uk/news/uk/this-britain/minor-british-institutions-john-smedley-1803199.html> (October 20, 2010).

"The John Smedley Story," John Smedley, <http://www.johnsmedley.com/the-john-smedley-story> (October 20, 2010).

"Who Is John Smedley?" John Smedley, <http://www.johnsmedley.com/who-is-john-smedley> (October 20, 2010).

Exhibit 10 Loro Piana Profile

Although the Loro Piana family began selling wool fabrics in the 1800s, the current company was founded by Pietro Loro Piana in 1924. The business made a name for itself in the 1940s supplying fine fabrics to the burgeoning post-war haute couture industry. Around this time, Loro Piana also began expanding across Europe and into North America and Japan as an exporter of fine wool and other premium fabrics. In the 1980s, the company began producing its own finished goods, which it distributed through premium retailers. It was not until 1993 that Loro Piana opened its first directly operated retail store in New York. Stores quickly followed in Venice and Milan. In 2010, Loro Piana operates 136 of its own boutiques

According to the company's website, Loro Piana "has carved out a position as the world's foremost cashmere manufacturer and the largest single buyer of the finest wools," which it supplies to the "most discerning and demanding of clients." The company's Luxury Goods division produces clothing for men, women, and children, along with accessories, home furnishings, and gifts. It also boasts one of the most complete made-to-measure services in the world. Its Textile division supplies the company's Luxury Goods division, and also sells fine clothing fabrics, fabrics for interior design, and yarns to other top manufacturers and other customers. Between the two divisions, it operates six manufacturing facilities in Italy, as well three in the United States, and one in Outer Mongolia.

In terms of the end consumers who purchase Loro Piana goods, the company describes them as "high-profile men and women who appreciate genuine quality and are not easily influenced by fashions and trends but instead seek discreetly elegant clothing." Accordingly, the company is committed to carefully controlling quality "from the search for the noblest of raw materials to the distribution of the finished goods through the company's own retail network or in collaboration with its highly selected partners." Loro Piana works with NZM to procure the finest available Merino wool directly from New Zealand growers.

Sources:

- "Company Outline," Loro Piana, <http://www.loropiana.com/eng/company/intro.php> (October 25, 2010).
- "Group Structure," Loro Piana, <http://www.loropiana.com/eng/company/struttura.php> (October 25, 2010).
- "History," Loro Piana, <http://www.loropiana.com/eng/company/storia.php> (October 25, 2010).
- "Products: Introduction," Loro Piana, <http://www.loropiana.com/eng/company/intro.php> (October 25, 2010).

Loro Piana at a Glance

Market Segment: Luxury knitwear

Products: Sportswear, leisurewear, home furnishings, accessories, gifts; clothing fabrics, interior fabrics, and yarns

Percent made from NZ Merino wool: Not available

Annual sales: Not available

Go-to-market strategy: 136 Loro Piana boutiques, plus a network of retail partners

Employees: Not available

Location: Based in Quarona, Italy

Founded: 1924

Ownership status: Privately owned and operated

Exhibit 11 Reda Profile

In 1865, Carlos Reda opened a wool mill in Italy's Valle Mosso. Over time, the business expanded into a complete wool factory. When the facility was destroyed by a flood in 1968, Reda rebuilt its operations with state-of-the-art technology and has remained committed to continually experimenting with innovative new equipment and processes to produce fine quality woolen fabrics for men's suiting in the "affordable luxury" category. As the company describes on its website, "Reda represents an example of Italian mastery, joining artisan tradition with technical innovation to obtain even better results."

Reda sells its fabrics to international men's fashion designers. Approximately 30 percent of its sales are in Italy, with the remainder coming from markets around the world. While it is well-established in Europe, Japan, and North America, Reda has discovered important new growth opportunities in Russia, China, and South America. The company presents new collections twice a year, with each collection including as many as 2,500 different fabric variations. These fabrics are "poised between tradition and innovation," says Reda, and they have become known for their "quality, luxury, and taste."

In 2006, Reda began purchasing New Zealand Merino wool through NZM. In 2009, the company decided to purchase only Zque certified Merino and now buys more than half of all the wool accredited through NZM's Zque program. In an article, Reda's owner, Francesco Botto Poala, described the benefits the company receives through its relationship with NZM: "Since 1865, all our fabrics have been produced exclusively in Italy. Quality has always been the key at every step, from the fleece to the finished fabric. But today, consumers are increasingly concerned about sustainability and traceability of products and the Zque Merino fiber delivers all these. By using New Zealand's Zque qualifying fiber we are ensuring the ongoing success of the retail markets. We are convinced genuine products that have heritage, integrity, creativity, and craftsmanship from Italy and New Zealand are a winning combination." Reda's managing director, Ercole Botto Poala, commented in another article: "Even if wools coming from New Zealand satisfy only about 20 percent of our needs, we strongly trust this project. The growers are doing an excellent job, and improve year after year. While a fabric's quality doesn't just come from the fineness of the fiber, the excellence of the wools coming from New Zealand continue to increase, and that's why Reda will grow its purchases from there."

In addition to the sustainability of its products, Reda believed that its Made in Italy label was a key differentiator for the company. It also asserted that its central position in the Billese textile cluster was a major advantage. "Around a 100 kilometer area, Ercole Botto Poala explained,

Reda at a Glance

Market Segment: Luxury suiting

Products: Fine woolen fabrics for men's suits

Percent made from NZ Merino wool: ~ 20 percent

Annual sales: US\$70 million

Go-to-market strategy: Wholesale sales to international men's fashion designers

Employees: 370

Location: Based in Valle Mosso, Biella, Italy

Founded: 1865

Ownership status: Privately owned and operated

“there is everything: from the combing process to the fashion designer and clothing manufacturer. That means a continuous and fast exchange of ideas, a 360-degree research and innovation operation. The delocalization of certain production phases doesn’t work. The ‘think tanks’ have to be close to production—that’s the reality.

Sources:

“Ercole Botto Poala: The Twist Interview,” *Twist*, May 2010,

http://www.iwto.org/news/wool%20in%20media/2010/twist-05-2010_ercole-botto-poala.pdf (October 25, 2010).

“Reda World: Company,” Reda, <http://www.reda.it/sito/main.html> (October 25, 2010).

“Reda World: History,” Reda, <http://www.reda.it/sito/main.html> (October 25, 2010).

“Reda World: Quality,” Reda, <http://www.reda.it/sito/main.html> (October 25, 2010).

“Reda World: Production,” Reda, <http://www.reda.it/sito/main.html> (October 25, 2010).

“World Class Merino Wool Draws Italian Journalist,” *Scoop Independent News*, October 8, 2009,

<http://www.scoop.co.nz/stories/BU0910/S00187/world-class-merino-wool-draws-italian-journalist.htm> (October 25, 2010).

Exhibit 12 SmartWool Profile

SmartWool was founded in 1994 by two ski instructors who were looking for ways to keep their feet warm and comfortable on the slopes. Through a process of experimentation, they rediscovered the classic benefits of wool and then committed themselves to developing a product that was soft and wouldn't shrink. But, as the story goes, people were hesitant to buy their socks because they thought they would be itchy. Finally, SmartWool challenged target customers to try them, which proved to be just the catalyst that was needed. According to the company, "The instant people tried them they were awestruck with SmartWool's soft luxurious feel. They were even more surprised that their feet stayed comfortable for extended periods of time in mixed weather conditions. Instead of getting clammy, the SmartWool socks stayed dry, soft, and comfortable. The founders then realized that they had to get their socks on as many people as possible to let them speak for themselves."

More than 15 years later, SmartWool is a leader in the active outdoor market, having expanded beyond socks into apparel, accessories (hats, gloves, etc.), and slippers. Based on its success, the company was acquired by Timberland in 2005 for \$82 million. As a subsidiary of Timberland, SmartWool is not able to disclose its annual sales. However, Mark Satkiewicz, the company's president and general manager, placed its yearly revenue in the range of US\$50-\$150 million and indicated that SmartWool was the biggest brand among New Zealand Merino's partners.

"As a company," Satkiewicz noted, "we're active, passionate, responsible, easy to do business with, and fun. All of those things really resonate with our employee-base and with who we are." These characteristics also help SmartWool differentiate itself from competitors who also target outdoor enthusiasts as their primary customers. Satkiewicz explained: "When we do brand affinity work, the number one brand attribute that always comes back from the people we talk to is *comfort*. That's the number one word associated with SmartWool. So we key on that in a pretty significant way. The other things that stand out are related to design attributes—stripes, colors, fun, active designs. All of those things really apply to SmartWool, and if you look at our product range and our catalog you'll see it that way. We're not too serious about ourselves. Even though we make a fantastic product that can perform in any conditions, we like to have some fun with it as well."

In terms of its go-to-market strategy, SmartWool relies heavily on selling through established retailers. More than 90 percent of the company's sales come from department stores (e.g., Nordstrom), sporting goods stores (e.g., Sports Authority), and outdoor retailers (e.g., REI).

SmartWool at a Glance

Market Segment: Active outdoors

Products: Socks, apparel, accessories, slippers

Percent made from NZ Merino wool: ~ 99 percent

Annual sales: US\$50-\$150 million

Go-to-market strategy: > 90 percent through retail partners

Employees: 85

Location: Based in Steamboat Springs, Colorado

Founded: 1994

Ownership status: Wholly-owned subsidiary of Timberland (acquired in late 2005)

SmartWool has an online presence that accounts for most of its other sales, but it has not yet begun to explore other channels such as opening its own retail stores. “I think that brands sometimes get ahead of themselves before they’ve actually accomplished everything they should in any one channel,” Satkiewicz commented.

SmartWool began procuring Merino wool through NZM in 2001. As of 2010, approximately 99 percent of its products are made with fibers purchased via NZM contracts. “We do source a very, very small amount of wool from Australia for a couple of sweaters that we make,” Satkiewicz explained. “It’s still traceable, certified, non-mulsed wool; it’s just not from New Zealand.” In terms of the benefits of working with NZM, Satkiewicz said, “It provides price stability for us and price stability to the grower. It also allows us to influence certain quality attributes, along with animal husbandry and all of the ethical things that New Zealand Merino stands for.”

Sources:

“About Us: History,” SmartWool, <https://www.smartwool.com/default.cfm#/About/History/> (September 27, 2010). Information provided by SmartWool president and general manager, Mark Satkiewicz, via a phone interview (September 27, 2010).

“Timberland Buys SmartWool for \$82 Million,” *Sporting Good Business*, November 8, 2005, <http://www.allbusiness.com/retail-trade/miscellaneous-retail-miscellaneous/4462770-1.html> (September 27, 2010).

Exhibit 13
Attendees at the Thinkering Summit

Designer Textiles International

Malcolm Walkinshaw – CEO

Ibex

John Fernsell – President

Icebreaker

Rosanne Palmisano – VP Global Marketing

John Smedley

Andrew Caughey – Managing Director

Johnstons

James Dracup – Group Managing Director

SmartWool

Mark Satkiewicz – President

Carol Davidson – Director of Marketing

Ann Wiper – VP and General Merchandising Manager

Ministry of Agriculture and Forestry (MAF)

Iain Cossar – Sector Performance Director

New Zealand Trade and Enterprise (NZTE)

Jon Mayson – Chairman

Tanya Shuster – Senior Business Development Manager

NZM

John Nichol – Chairman

John Brakenridge – Chief Executive Officer

Peter Floris – Chief Financial Officer

Nick Aubrey – Business Development Manager

Gretchen Kane – International Marketing Manager

Steve Williamson – Creative Manager

Jonny Simpson – Art Director

Ryan Hughes – Social Technology Manager

Source: Information provided by New Zealand Merino.