

DEVELOPMENT OF STRATEGIES TO INCREASE COMMERCIAL
PRODUCTION OF MOHAIR AND CASHMERE IN AUSTRALIA

[DESARROLLO DE ESTRATEGIAS PARA INCREMENTAR LA
PRODUCCIÓN COMERCIAL DE MOHAIR Y CASHMERE EN AUSTRALIA]

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SUMMARY

We aimed to identify impediments to investing into mohair and cashmere production and to suggest programs and strategies to attract investors. Targeted interviews of people focussed on attributes of an investment opportunity. Analysis differentiated views of small and large-scale producers and those not involved in these industries. Potential investors into mohair and cashmere make decisions based on the compatibility of the enterprise to their farm system, the technical, financial and market feasibility of the enterprise and its comparative advantage with other possible courses of action. They are sceptical of information coming from within these industries that is not sufficiently supported by fact. There are many implications from these findings including the need for the industries to: understand the investment decision process; provide objective financial and benchmarking data; make information more accessible; overcome resistance to these industries; and increase the visibility of the industries.

Key words: *Investment; Information; Benefits; Compatibility; Decision-making; Feasibility*

INTRODUCTION

The Australian mohair and cashmere industries are established small industries exporting a small proportion of the world's production of these fibres. These industries have significant potential to expand and both need to increase production 4 (mohair) to 10 (cashmere) times to obtain economies of scale and to attract or retain commercial services. While supply chains exist for considerably larger industries, existing farmers and land-holders have not been attracted in sufficient numbers to counteract the exit rate of people who invested during the 1970s and 1980s. In the 1990s these industries undertook business-planning without consulting land-holders who were not in their industry, nor with people exiting from their industry. It is fair to

say that without some creative change in strategy that both the mohair and cashmere industries may not develop to their market potential and may wither. The present work aimed to identify the perceived impediments to diversifying into mohair and cashmere production and to suggest targeted programs and strategies.

MATERIALS AND METHODS

Targeted interviews of people (n=45) internal and external to these industries were conducted by telephone (approximately 45 minutes). The 45 questions focused on the five attributes of an investment opportunity such as financial compatibility, marketing information and perception issues (Fig. 1) to identify views of these industries. The analysis differentiated the views and expectations of small and large-scale producers as well as large-scale producers who were not involved in these industries (Chaffey and McGregor, 2004a and b). Material provided by industry to people interested in mohair and cashmere production was analyzed. The principles of selling, the way the selling process is conducted and of the investment decision-making process were reviewed. Strategies for government agencies and private sector providers and the industry were developed.

RESULTS

Motives for operating a cashmere or a mohair enterprise

Profitability was given as the primary financial motive for running a Cashmere or a Mohair enterprise followed by financial security. Job satisfaction, and to a lesser extent job variety, were the major non-financial motivators. People who have large herd sizes and a large capital investment in the enterprise, appeared to be motivated more by profitability and the satisfaction they get from running an enterprise and participating in an industry.

Feasibility assessment

People unrelated to the industry rated feasibility and comparative advantage as being highly important. They perceived finding information more difficult than people in the industry and they had less trust in the people's opinions (Figure 2). Larger producers thought smaller hobby producers were not very helpful to advise on commercial production. People thought there was a lack of experienced and qualified people to give them advice they could rely upon.

People unrelated to these industries were not aware of financial studies. Difficulties arose for potential investors because of the lack of ability to assess over a number of years the financial feasibility of an enterprise and the impact of variables on an enterprise. People in the industry indicated the financial analysis of their enterprise was not detailed or very reliable. Hence they were likely to find that enterprise budgets and estimates were very different to reality.

People unrelated to these industries were not sure where to find market information but their expectations of brokers providing market information were high. They wanted to know critical size of the enterprise and market risk. Reading about the markets in the mainstream papers would increase their knowledge and confidence.

Views on comparative advantage

When people consider investment in a particular enterprise they consider the suitability of their farm system to that enterprise. Currently, assessing the suitability of mohair and cashmere is not easy and comprehensive enough to ensure people make a fast and considered decision. Experienced people with a large-scale cashmere enterprise indicated that determining compatibility was both important and easy to do but potential commercial investors needed benchmarking data over a number of years.

Information

Larger scale farmers have a higher demand for credible and detailed information that has been proven correct over time. They respect credible consultants, local Department of Agriculture, Associations and commercial farmers. Alternative farming field days, breed societies and small breeders are less likely to provide credible information. We found that information is available but it may not be readily accessible and / or in an appropriate form to make decision making easy, fast and effective for people inexperienced in the cashmere industry. This implied two types of problems: 1) People indicated that costs and time required end up becoming larger than

anticipated. This is shown in Fig. 1 where prospective producers were more optimistic about the compatibility of their farm and financial management than existing producers; and 2) Information was judged to be either inadequate, in that important information was either not available or hard to find, and / or unreliable when they did find it.

Features, advantages, benefits and proof do the selling

Features are traits that make something what it is. Every feature has one or more advantage or function. The feature must serve some purpose to someone otherwise it cannot be important (Buzzotta *et al.*, 1982). People make decisions to buy because they think they will be better off. Benefit statements are proof statements that suggest an individual with particular needs, will be better off. People will invest in a mohair or cashmere enterprise if they can be convinced they will be better off. Benefit statements alone are not enough. Proof (net gain) is needed. Proof is a general statement of evidence that shows a product or service will make people better off compared to some other comparable product, service or pursuit (e.g. surveys or research by ... shows that profit from mohair exceeds comparable wool production by ...).

Strategies for the mohair and cashmere industries in Australia

For cashmere the main strategies were: 1 Use existing commercial producers as information generators and case studies; 2 Improve the quality of the information available so people can make faster, more informed decisions; 3 Implement a communication plan to articulate the features, advantages and benefits of cashmere production and the management of objections to the enterprise to change the perceptions of potential investors; 4 Streamline the supply chain and speed up payments; 5 Commit significant resources to implement these proposals.

Key drivers for profit and confidence in the mohair enterprise were summarized in a casual loop diagram (Fig. 3). For mohair the main strategies included Strategies 1, 3 and 5 listed for cashmere. Other strategies were; 1 Gather credible information on the industry and repackage it to enable people to assess their compatibility to the mohair enterprise quickly; 2 Establish a financial feasibility model and build in current and future benchmarking and financial data that allows people internal and external to the industry to test enterprise feasibility under a range of sensitivities and scenarios in easy to use software; 3 Control more steps of the investment decision-making and the information dissemination processes to reduce 'search', 'thinking' and 'time obsolescence' costs.

This can be done by combining well designed industry conferences with standard extension methods.

DISCUSSION

Potential investors into mohair and cashmere make their investment decisions based on the compatibility of the enterprise to their farm system, the technical, financial and market feasibility of the enterprise and its comparative advantage with other possible courses of action. They will be skeptical of information coming from within the industry that is not sufficiently supported by fact. Despite this they will form their opinions based on their own experiences, opinions of other farmers they respect and people that they regard as experts. They will be skeptical of what they regard as a fringe industry run by people who do not farm in ways similar to them or live in environments in which they farm. Language or media that is not consistent with the language they are familiar with from other mainstream industries such as wool, lamb and beef will not positively influence their opinions.

The current information packages offered by the mohair and cashmere industry to people inquiring about the enterprise are not sufficient for decision-making by people operating commercially large-scale farm businesses. The information assumes people are capable of, and willing to invest the time in finding sufficient information to make informed decisions about the enterprise. Identifying the key features of the enterprise and discovering the benefits and working through the facts and fictions of the many objections they encounter about mohair and cashmere production are time-consuming tasks that most people will not do.

There are many implications that arise from the findings. These include: the need for the industry to understand fully the diversification decision process; to make information more accessible; to overcome resistance to these new industries; and to increase the visibility of the enterprises and industries (Chaffey and McGregor, 2004 a, b). More detailed information on enterprise and diversification decision making processes has been developed for existing and new landholders and a series of nine bulletins published (including McGregor, 2007 a, b, c).

CONCLUSION

Substantial growth in mohair and cashmere production will come from farmers establishing large-scale enterprises on suitable land with appropriate farming systems. These people will judge these enterprises based on profitability and the extent of satisfaction

they derive from the enterprise. Appealing to other motives will fail. Industries must focus their time and resources in business sensitive methods more likely to attract larger scale investors.

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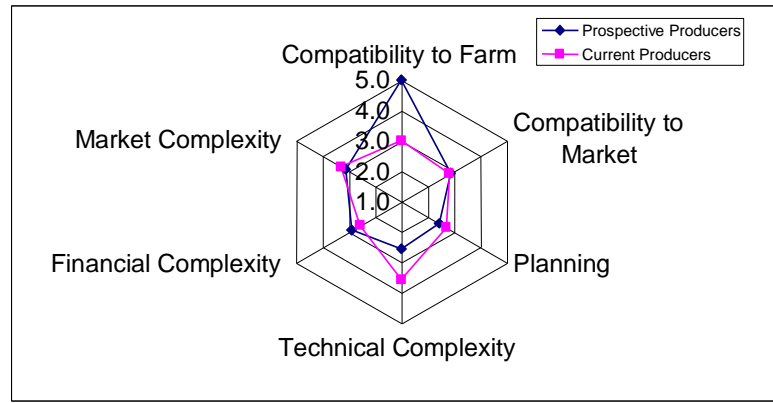
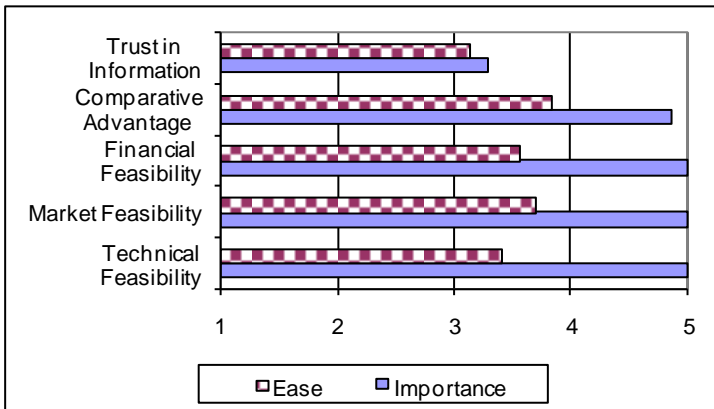


Figure 1. Attributes of any investment decision. A rating of 1 means poorly prepared while 5 means highly prepared. A common finding in new industries is that current producers report they are not as proficient as they wish (McGregor and Chaffey, 2002).

a)



b)

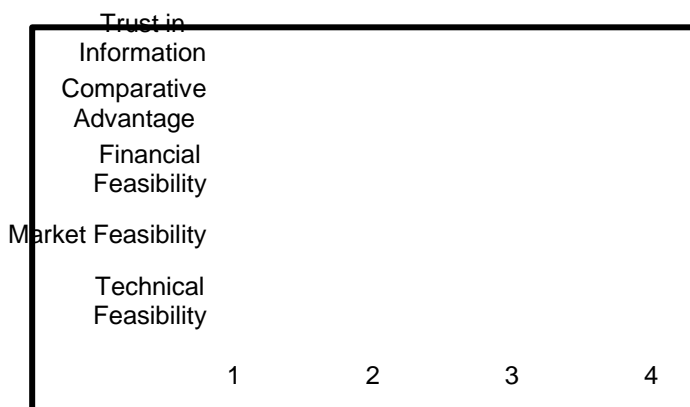


Figure 2. Views on feasibility, comparative advantage and trust in information by people a) related to and b) unrelated to the mohair industry. [Importance Scale; 5 = highly important; 4 = Important; 3 = Mildly important; 2 = Unimportant; 1 = Not considered. Ease Scale; 5 = Very easy; 4 = Easy; 3 = Difficult; 2 = Very Difficult; 1 = Do not know.]

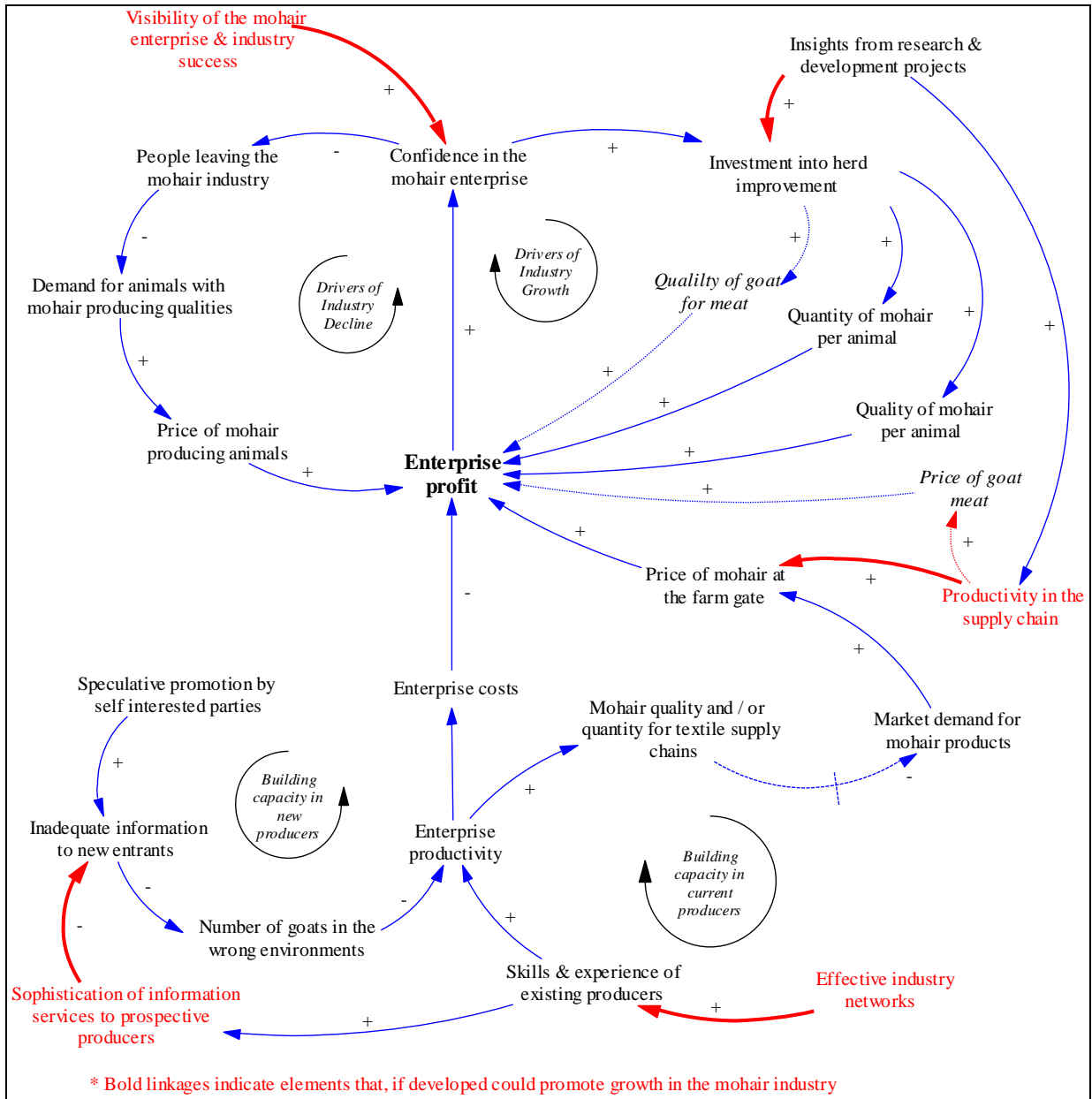


Figure 3. A casual loop diagram illustrating the connection between important drivers of profit and confidence in the mohair enterprise. Positive and negative drivers indicated by + and – symbols. Drivers operate in a multiplicative way, i.e. two – drivers give a + effect. The diagram is interpretive and is used as a basis to support and challenge assumptions about how an industry works as a method of identifying blockers and to examine potential stimuli.

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