

Electronic marketing of Australian wool - introducing E-commerce to a traditional agricultural industry

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Abstract

This paper discusses a contemporary e-commerce project within the context of a traditional agricultural industry. The Australian Wool Exchange Ltd is currently proceeding with the progressive introduction of its IT strategy. The core of this strategy is the creation of a global Wool e-commerce model based on the following core components: common description system, common market reporting, common electronic selling system, and use of common IT standards.

Relevant e-commerce services will be added to these core systems as required based on market demand and availability. With time this system could be adapted to include non-wool commodities as well as providing access for the full range of wool industry participants. Despite the potential benefits for a global wool e-commerce model the introduction of the strategy has met with considerable resistance from various industry sectors. The presentation will briefly describe these problems and the lessons AWEX has learnt for future enhancements.

Introduction

The Australian Wool Exchange Limited (AWEX) is a non-profit public company limited by guarantee. It was formed in 1993 as a consequence of the Garnaut report into the wool industry. It is an industry member-based organization responsible for operating the sale functions and associated services for the wool industry. It is a non-government organisation and has a non-profit making structure with an annual turnover of \$5-6 million.

It began operations on 1 February 1994 to facilitate a co-operative approach for wool selling systems in Australia and to enable the industry to manage its own affairs in a deregulated market. Since assuming responsibility for the wool sale process, AWEX has achieved a more than 30 per cent reduction in selling costs. AWEX's members are wool industry participants who produce, sell, buy and process wool in Australia.

The objectives of AWEX are to:

- Maintain, administer, conduct and facilitate efficient, innovative and informed wool selling systems.
- Establish, monitor and administer the rules of wool selling of the Australian Wool Exchange.

- Establish and maintain facilities to gather and disseminate pre and post sale market information.
- Contribute and maintain recognised quality assurance standards for wool sold in Australia.

AWEX Information Technology strategy

The Australian Wool Exchange Ltd is currently proceeding with the progressive introduction of its IT strategy, which includes a considerable E-business component. The core of this strategy is the creation of a global Wool e-commerce model based on the following core components: -

- common description system (AWEX-ID)
- common market reporting (WOOLTRAK)
- common electronic selling system (eclipse)
- use of common IT standards (XML/Web)

Given its information technology base, AWEX has increasingly been used as a vehicle for reform, with some success. However, it is increasingly becoming an IT service provider with respect to the wool industry. This role will continue to be under pressure in the future as further restructuring of the wool industry takes place.

Wool industry and technology

The wool industry is an adopter of new technology in line with other agricultural industries, although it is a particularly conservative industry. Use of Information Technology is widespread and increasing across the complete marketing chain consisting of growers, wool brokers, wool buyers, processors and retailers.

The process of disintermediation in the industry has only just begun, in which services are unbundled and metamediaries are formed. In layman s terms this means that new players will begin to provide more services already supplied by larger existing players in the industry. These larger players will also adopt the new technology and provide web-enabled access to their services.

The wool industry was an early adopter of Electronic Data Interchange (EDI) in Australia. Whilst in use since the mid-1980 s, this system is now out-of-date and not suitable for operating at the international level. The EDI network has driven extensive use of IT in the brokering and buying sectors and logistics .

There have been a number of attempts to establish electronic selling (*es*) in the past, so that a variety of *es* offerings are now available. However, there has been limited direct

grower input to date. Furthermore, grower perceptions of the benefits of electronic selling are often unrealistic.

The basic AWEX strategy has evolved through a staged expansion of information services. These services have included:

- a new description system (AWEX-ID) -1994/95;
- a new Market Reporting system (Wooltrak) - 1995/96;
- Electronic Selling (Eclipse) - 1999/2000; and
- rebuilding of the EDI Network to Web based standard - 2000/01

The AWEX-ID and WOOLTRAK Systems have been operational for several years. Wooltrak is a market reporting service, accessible via the internet at <http://www.wooltrak.awex.com.au>, that gives subscribers access to a selection of daily and weekly Wooltrak Market Reports, Interactive Databases, Statistical Information and online graphing of Market Prices. AWEX-ID and WOOLTRAK are now also in use in South Africa and have been trialled in New Zealand.

International Systems and Standards have been adopted, these having been initiated by Australia, but are now being used in other major wool producing countries such as South Africa and New Zealand. Overseas processors and market traders obtain considerable benefits from the existence of such integrated international and quoting systems.

The Eclipse electronic selling system was released live in June 2000 (Offer & Tender boards). The auction component was successfully trialled in the first half of 2000. Re-engineering of the EDI Network has now commenced. Eclipse is also currently being offered to the New Zealand and South African industries.

The existence of AWEX is also making it possible to incorporate related service providers, such as:

- Alternative Selling Systems
- Risk Management Services
- Decision Support mechanisms
- Expanded Web access

A vertical wool portal is being constructed, incorporating E-Commerce features as required by the industry:

- logistical
 - finance/insurance
 - retail
- expand services based on market demand
- strategic partnerships

Progress of the AWEX strategy has been steady but unspectacular, with a number of potential suppliers having been assessed. However, resistance is being encountered by various interest groups within the industry. In summary, a bottom-up approach has been adopted based on achievable commercial steps.

Some reflections

Change is always difficult to achieve in agriculture, particularly when dealing with the more conservative elements within the pastoral industries. We have attempted to get industry consensus, but progress has been impeded by self-interest and distrust. The human factor should never be underestimated, for it has been the main impediment to success to date. The market players do not want to disintermediate or unbundle their operations and remain wed to the current system infrastructure, e.g. open cry auctions, and never discuss the non-technical difficulties in implementing change. As a consequence the differences between the hype of e-commerce and the reality of implementation remain large indeed.

For a successful e-commerce strategy the first need is to have core value-adding systems in place. This allows a bottom up rather than a top down approach to be undertaken. The main benefit that will be provided is a one stop shop ability and with globalisation enabled via the web. We have opted for an evolutionary rather than a revolutionary approach, since staged development seems to be the most successful way to go unless consensus prevails.

What about the future?

Wool is still searching for the system that will advance the industry. Restructuring of the market chain will inevitably occur and is long overdue. However, there will undoubtedly be more casualties as the replacement of systems and personnel continues. It is difficult to quantify and explain the benefits to producers, particularly as funds have to be expended in order to generate those future funds that are necessary for the survival of the industry by enabling to continue as a viable competitor in the market place, e.g. need to spend money to make money as well as compete with the industry's competitors. One or more wool portals will eventually exist, enabling the industry to more actively participate in the global e-commerce marketplace.

In conclusion

E-commerce does not replace the tried and true forces of supply and demand. What we are attempting to do is put in place systems that will facilitate the sale and acquisition of wool so that participants along the supply chain are empowered to let the market prevail and the industry operate more smoothly.

Government can assist through the provision of the telecommunications infrastructure, and by aiding farmers to access the internet (e.g. through TAFE colleges, schools and pubs). Private enterprise will continue to drive the process, and the majority of producers will continue to remain price takers, with supply and demand remaining the paramount market drivers.

Agriculture in Australia is still well behind world standards with respect to making use of e-commerce, and also with using Futures exchanges. However, if industries such as wool fail to embrace these technologies than they will inevitably perish.