CENTER FOR URBAN AND REGIONAL AFFAIRS OF THE UNIVERSITY OF MINNESOTA
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Consumer-Driven Demand Analysis for Locally Grown and Organic Wool in the Upper Midwest

Survey Analysis – Summary Version (Apr. 28, 2016)

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1. Background

The motivation of this research stems from the convergence of several emerging trends about the shopping habits of the US consumers. First, the affection for wool is reignited and the lauded characteristics of wool, such as breathability, durability, and the ability to resist water are again becoming attractive. Second, more and more consumers are buying environmentally friendly, sustainable or organic products. Last but not the least, local identity can be a unique advantage of a product while the buying-local campaigns are heating up.

In our survey, we would like to explore the market potentials for the local and local-and-organic wool products in the Upper Midwest (Iowa, Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin by our definition). We believe that it is essential to attain the attitudes of the supply side about such consumer-driven demand and find out if the local wool industry can benefit from such unexploited revenues. Therefore, we focus our survey on the manufacturers and intermediate processors in the wool industry[1]. We have received 12 responses from the identified manufacturers and 8 responses from the identified intermediate processors[2, 3].

2. Result Highlights

In the question of ranking wool source selection criteria, we give 8 criteria ("animal rights concerns", "environmental concerns", "grade/diameter", "length", "local identity", "price", "quantity" and "supplier reliability") and let the respondent rank them in the preference order. We find that averagely, "grade/diameter" is the most preferred for both groups. We also notice that "local identity" is ranked as the #4 most preferred for the manufacturers (which we consider as comparably influential) but ranked as #6 most preferred (#3 least preferred) for the intermediates.

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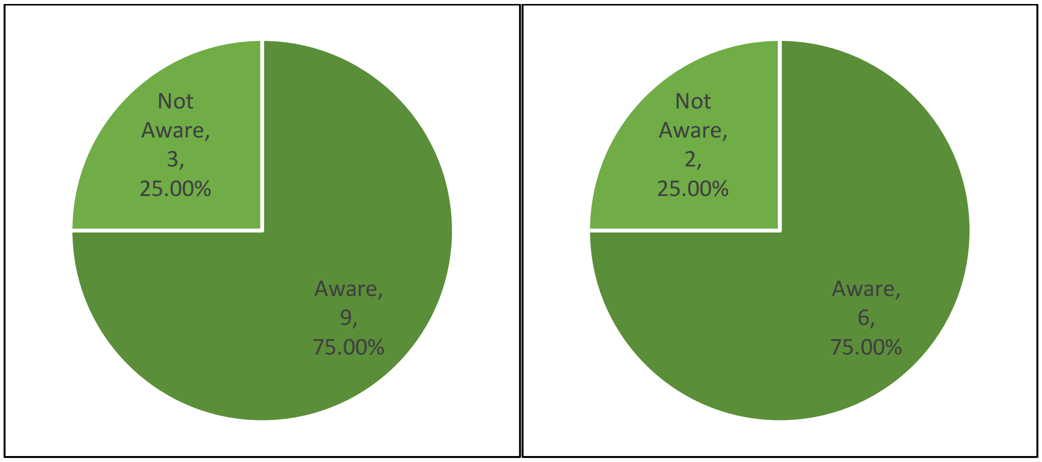
[1] To identify potential participants, for manufacturers, we combined and double checked the contact data that we attained from both The Dun & Bradstreet® Million Dollar Directory (MDDI), Reference USA® and thorough Google searching using multiple relative keywords. For intermediate processors, we directly acquired the directory from the American Sheep Industry Association website.

[2] We use the form of online survey via Qualtrics with the license from the University of Minnesota.

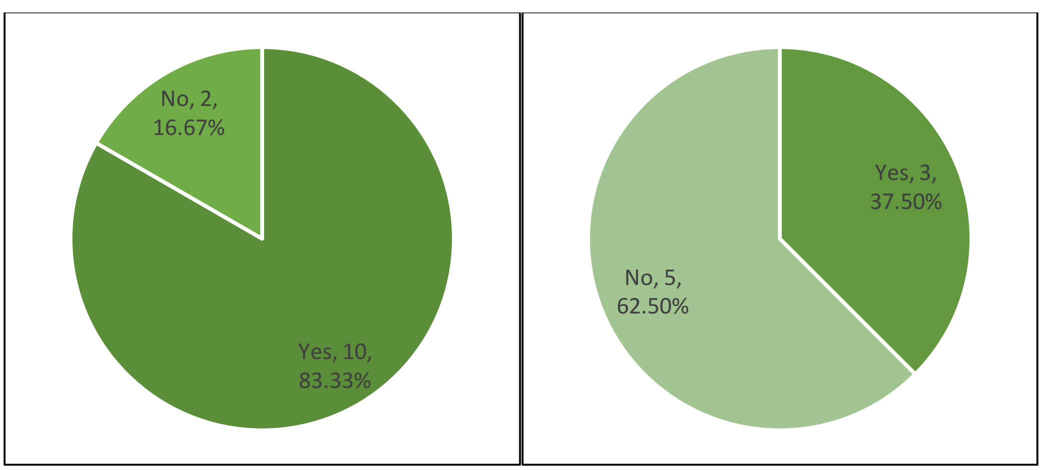
[3] We are aware of the relatively small number of the responses received, however, considering the fact that the Upper Midwest local wool industry only occupies a fringe market, we believe that such a response rate is satisfying and that reaching a higher number in this survey is nearly unrealistic. (According to the latest data from the U.S. Census Bureau, nationally, there were only 15 recorded establishments in the categories of "wool, wool tops, and mohair merchant wholesalers" in 2012, which indirectly confirms the limited size of the wool industry in the U.S. As for the intermediates, we were able to identify 32 contacts from the website of American Sheep Industry Association.)

In another question, we ask the respondent if he/she is aware of the emerging consumer-driven market for locally grown, natural, sustainable and organic fibers. 9 (75.00%) of the manufacturer respondents and 6 (75.00%) of the intermediate respondents answer “yes”, revealing that a major part of both groups are aware of such a consumer-driven market. See Graph 1.



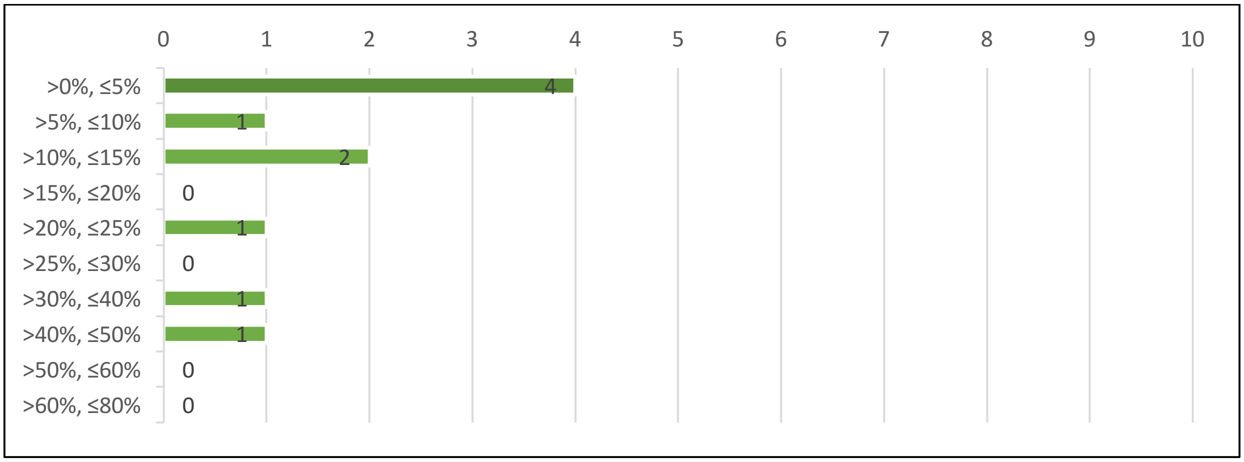
Graph 1: *Awareness of the manufacturer (left) and intermediate (right) respondents on the emerging market for local, natural, sustainable and organic wool*

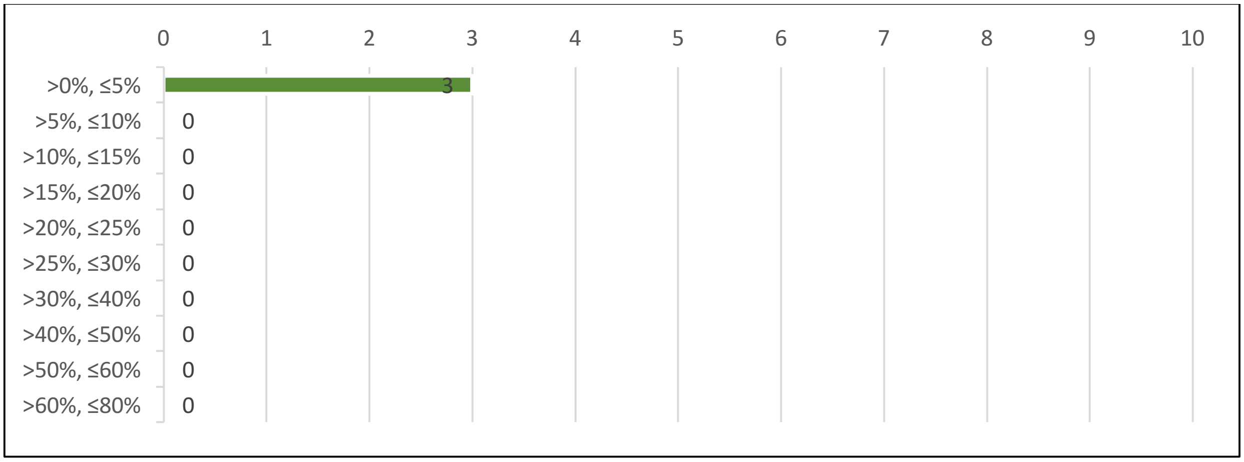
We ask every survey participant if they, after reading our research background information, agree that there is any added value for the Upper Midwest wool due to its local identity. Among the 12 manufacturer respondents, 10 (83.33%) agree with the notion. In contrast, among the 8 intermediate respondents, only 3 (37.50%) agree. See Graph 2. Such difference reveal asymmetry beliefs about the outlook of the locally grown Upper Midwest wool between the two groups. The intermediates’ gloomier perception may be due to their belief that they can earn higher profits by distributing wool without regard to the local identities (maybe because reclassifying the wool based on local identity can increase the costs). However, considering the fact that the manufacturers are actually selling the products to consumers, their responses still reveal the strong market potential for such a business. We also see that there are both small- and large- scaled manufacturers supporting the Upper Midwest local wool business.



Graph 2: *If the manufacturer (left) or intermediate (right) respondent agree that there is added value for the Upper Midwest wool due to its local identity*

If a respondent agrees that there is added value of the locally grown Upper Midwest wool, we then continue to ask he/she about the maximum premium that he/she is willing to pay for the Upper Midwest wool, which is the percentage above the average price of the other wool that he/she purchases. We provide the following ranges for the respondent to select from, which are (0%, 5%), (5%, 10%), (10%, 15%), (15%, 20%), (20%, 25%), (25%, 30%), (30%, 40%), (40%, 50%), (50%, 60%), (60%, 80%), (80%, +∞). Among the 10 manufacturer respondents who agree on the added value of the Upper Midwest wool, 4 choose (0%, 5%), 1 chooses (5%, 10%), 2 choose (10%, 15%), 1 chooses (20%, 25%), 1 choose (30%, 40%), 1 choose (40%, 50%). All the 3 intermediate respondents who agree on the added value choose the range of (0%, 5%). See Graph 3. Interestingly, more than half of the manufacturer respondents are willing to pay for a higher premium than the intermediate counterparts, which may again suggest the profit potential in the supply chain of the Upper Midwest local wool. We think that it is important for the intermediates to know that the manufacturers are generally willing to pay for a higher, if not equivalent, premium for the Upper Midwest local wool, so the profit margins for the intermediates can be actually higher than they originally expected.





Graph 3: *Premium willingly to be paid by the manufacturer (up) and intermediate (down) respondents who agree with the added value of the Upper Midwest wool*

If a respondent agrees that there is added value to the locally grown Upper Midwest wool, we also ask if the respondent agrees that there is *extra* added value to the Upper Midwest wool *if it is certified as organic by USDA*. Among the 10 manufacturer respondents, the attitudes are evenly spilt with 5 (50.00%) agreeing with the notion. Such result suggests that even though a majority of the surveyed manufacturers are confirmative about the added value to the Upper Midwest wool due to its identity, the opinions are divided on if there is convincing market potential for the organic Upper Midwest wool, which could represent higher production costs and an narrower market[4].

As for the maximum premium, among the 5 manufacturer respondents who agree on the extra added value, 1 chooses (0%, 5%), 2 choose (5%, 10%), 1 chooses (20%, 25%), 1 choose (40%, 50%). Based on such results, we conclude that there may exist a portion, though a relatively small one, of the manufacturers who are willing to pay for some extra premium (most likely not exceeding 10%) for the Upper Midwest wool if it is certified as organic by USDA. It is not impossible to further develop the organic Upper Midwest wool business, even though a more detailed an oriented set of marketing strategies are urgently needed to raise the awareness of both the consumers and producers.

3. Main Conclusions

1) A majority of the manufacturer respondents in our survey are in favor of the possible market potentials for the Upper Midwest wool due to its local identity, regardless of their operation scales, and they are generally willing to pay a premium of no larger than 15% for it. In contrast, less than half of the intermediate respondents are in favor of the notion, suggesting a possibly narrower profit margin for them. Despite of the more suspicious attitude from the intermediate respondents, we still think that further developing the local wool business in the Upper Midwest is feasible and promising.

2) Among the manufacturer respondents agreeing with the added value of the Upper Midwest wool, the attitudes towards some *extra* added value for the Upper Midwest wool if it is certified as organic by USDA are evenly divided, with an *extra* premium generally no larger than 10% from the supporters. It is still possible to exploit this narrower market, but properly designed marketing and awareness raising plans will be essential. In addition, a new set of organic standards tailored specifically to the wool or fiber industry will be of great help.

3) The most challenging difficulties for further developing the local wool business in the Upper Midwest are likely to be the insufficient quantity and unsatisfying quality of supply of the wool in this area. Besides, a lack of local scouring service is another major impediment.

[4] We think that the sample for the intermediate respondents is too small to make any conclusion on this topic.