

## **PGP - The New Zealand Sheep Industry Transformation Project**

### **Quarterly Report Summary. April - June 2011**

#### **Overall**

In the last quarterly report we commented on the impact of the Christchurch earthquakes on NZM and on the NZSTX project. We are pleased to report that, effective from Monday 25 July, the team will be back together on one site for the first time in five months, as we move into new premises in Christchurch.

There has been a change in NZM's shareholding. NZM is now owned 100% by Merino growers through the holding company Merino Grower Investments Limited (MGIL). This will have no impact on the PGP programme as MGIL has indicated a total commitment to the current NZM strategies, including the NZSTX project.

Key outputs for the first year of the PGP programme are:

- Merino fibre sold through fixed term contracts with brand partners was up on the target for the year by 11%.
- An MOU signed with Silver Fern Farms to form a new joint venture company to develop markets for premium merino meat.
- Early and encouraging development of Merino leather product options.
- Establishment of demonstration farms and commencement of production science projects to lift on farm productivity for growers producing fit-for-market fine wool sheep.

#### **Project One - Transforming Demand for Fit-For-Market Fibre**

A toolkit, which has been developed to assist brand partners inform their customers about Merino fibre and its uses, is in use by existing brand partners. The development of the toolkit is an ongoing exercise and will never be 'complete' as such; however, the first iteration is complete. The aim of the next iteration of these tools, particularly the i-Phone app, is to customise them for individual brand partners.

Phase one of WebX went live in the week of 18 April 2011 after being delayed by the impact of the Christchurch earthquake. The WebX site can be visited at [www.discoverzque.com](http://www.discoverzque.com)

The fibre forward contract volumes (kilograms of clean wool) sold to existing partners and one quality new partner has exceeded our forecast.

Work to develop new fibre product opportunities has included working with a potential new brand partner around developing a new category of Merino for use by 'professional risk takers' e.g. military personnel, fire fighters etc. NZM is also in discussions around forming an alliance with an Australian company.

#### **Project Two – Meat and Other Products**

With the joint venture agreed between Silver Fern Farms and NZM, work is progressing well with meat and other product opportunities. In May 2011, John Brakenridge of NZM and Keith Cooper of Silver Fern Farms, together with other members of the team, visited Stanford University in California to work with Professor Baba Shiv on a market research and development strategy for Merino meat.

The first series of taste panel work has been completed this quarter, comparing the eating qualities of Merino lamb and hogget against a composite animal. Early results show that the Merino lamb is juicier and of a better eating quality.

Together with Silver Fern Farms, NZM has determined that the initial target market for a differentiated meat offering will be the 'food service' sector, with a focus on top-end restaurants in New Zealand, and a roll-out to international top-end restaurants over the course of the next twelve months.

Our leather research partner (Leather and Shoe Research Association (LASRA)) is nearing the end of their project to help us better understand the attributes and characteristics of Merino leather. Results will be available in the first quarter of 2011/12. The results of this project will help us to identify the likely market segments for which the product would be suitable. The research will be linked into the market scoping work that we have undertaken during the year and together with this will guide us on optimal marketing platforms for differentiation.

### **Project Three – Production Science**

As noted in the March quarterly report, good progress continues to be made across most projects, but some of the year one timelines will need to be extended to ensure the best possible outcomes on the projects.

Further to previous quarterly reports, there continues to be good progress on the development of the three models that will be used to assist growers with production gains (farm systems model, market model and farm management model).

The initial farm systems model (documentation of farm systems) for the luxury woven and active outdoor components has been completed and we are now at testing phase. The draft hosiery model has also been completed; however, we are not yet satisfied with the robustness of this.

Selecting appropriate breeding traits and a breeding management programme, including infrastructure (such as mechanisms for sample collection), remains a work-in-progress, with breeding and finishing trials underway on the two demonstration farms in Hawke's Bay and Marlborough.

To date, our communications have focused on the existing NZM Merino and mid-micron client base. Next quarter we plan to extend communications to a wider group, with a visit to Hawke's Bay and the intention as part of that to hold a grower meeting to discuss NZSTX. Many of the attendees will likely be growers new to the fine wool industry.