

You're Not the Only One Asking – Alpaca Business FAQs

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“Business is not about theories or the testing of revolutionary ideas. It is about practice. Ideas and intelligence and creativity, yes, but with a lot of sheer practice thrown in...When in doubt, ask. When not in doubt, ask.”

- Paul Hawken (of Smith and Hawkens), in Growing a Business.

Over the course of more than a decade teaching business principles for the alpaca industry I have found that the same questions have come up regularly. I consider these to be the FAQ's of the alpaca business world – questions that almost every breeder will end up pondering at one time or another. Here are some of the questions that I get asked most commonly:

- **How long will it take before I start making money with my alpaca herd?**

This question could be phrased another way, which is this: what is the average time to reach the break-even point in the alpaca industry? Break-even is the point at which income from sales equals expenses. The basic calculation looks like this: $\text{Income} - (\text{Fixed Costs} + \text{Variable Costs}) = \0 . In other words, income from your sales for the year are exactly equal to the costs of running your alpaca business. Until you reach the break-even point, your expenses will exceed your income and you will be covering the difference in some way, perhaps using your savings, loans, grants, lines of credit, etc.

For other businesses, the average time to reach the break-even point is often stated to be two years. I suspect that for the alpaca industry it is longer, perhaps four years or more, but I do not have any real data to support that estimate. What I do know is this: the time it takes a beginning alpaca farm to reach the break-even point is quite variable.

The reason that the average time to reach the break-even point is difficult to estimate for alpaca breeders is that there are so many different models for alpaca ranching. Some breeders already own land suitable for farming, and their start-up expenses are quite modest compared to those who live in urban areas and who must first find and buy farm property. Some breeders do not plan to ever own a farm, and are using the agisting model. Some breeders start with large herds of alpacas whereas others start with only one or two animals. Some invest in alpaca product inventory while others do not. With such a wide variety of options for how to begin an alpaca business, it is no wonder that some new breeders reach break even in a matter of months while others take years to arrive.

What I advise those who ask this question is this: carefully consider your unique financial situation. Meet

with your financial advisor and discuss the opportunities and your specific income needs. Then select the model that will fit best with your needs and limitations. Make sure you are able to cover the all costs of running your alpaca operation until it reaches the break-even point; otherwise you risk losing your investment of time and cash before you get to reap the rewards.

- **I have a small farm. How can I compete with the big farms?**

I liken this to a small specialty retailer comparing itself to Wal-Mart...the giant corporations and the sole proprietorships have different niches and therefore need different models for how to be successful. It is about developing your business venture into the best that it can be, no matter what size it is. Your success is dependent on the choices you make with your business, not the size of other businesses in your industry. There is room for a variety of alpaca business models, large and small, and they will be equally successful by concentrating on what they do best.

For example, we can look at statistics from small businesses in general. According to the SCORE website (www.score.org), small business in the U.S. generated 60 to 80 percent of net new jobs annually over the last decade and represents 97 percent of all the exporters of goods. Considering the challenges of competing with the huge corporations, small business owners seem to be able to put the benefits of being smaller and more nimble to work in a very successful way. We know that small businesses can often compete very well on the strengths of their unique products and specialty niches, can provide more personal service, and can respond more quickly to emerging marketplace trends.

When we look at other livestock industries we see that the balance between those who own large herds and those who own small ones is very similar to the alpaca world. There is a natural bi-modal distribution at work, which suggests that we should accustom ourselves to an industry that is a mixture of large and small farms.

If you approach your small farm operation with the same careful planning, budgeting, customer service and attention to quality that any small business owner needs to have, you will find that you can make a very nice income from a herd size of 20 to 30 alpacas. If your herd is smaller than that, it will be more challenging to make a profit but it can be done with creativity and a focus on diverse income streams. Concentrate on what you **can** do, not on what other farms are doing, and remind yourself that the big farm is not necessarily your model.

- **Yes, but the big farm in question is right down the street from my farm. Can I be successful when I live under their shadow?**

Rather than attempting to 'out compete' the large farm down the street, it is helpful to look at the opportunities,

needs and expertise that each brings to the table and see how that informs their business strategies.

Big businesses typically have greater resources than do most small businesses. Since much of business success depends on developing networks and partnerships that help you overcome obstacles, the 'if you can't beat 'em, join 'em' slogan is worth considering. What needs does the large alpaca farm down the street have that you can assist with? Consider collaborating rather than competing for best outcomes.

For example, the large farm has a great many alpacas that they need to sell each year. Frequently small alpaca farms, having only a few alpacas for sale, find themselves in a 'sold out' situation. What better collaborative opportunity could exist than providing sales assistance? Other examples of *quid pro quo* relationships include sharing expenses for hay, grain or other supplies purchased in bulk, teaming up at local events where an alpaca presence is needed, customer referral programs, and retailing alpaca products.

Wherever possibly, work collaboratively with your large farm neighbors. At the same time, work to develop your own unique niches and specializations in response to customer needs. There is plenty of room in our still-young industry for farms of all sizes when we work together toward common goals.

- **Ok, I get it about working collaboratively. But my question is even more basic. How do I sell my alpacas when there are so many other farms with alpacas for sale?**

Selling an alpaca is not an event, it is a process. In order to be successful you need three things: something to sell, a customer who is interested in buying your product, and a way to bring the customer and the product together. Let's look at the basics of each of these three key elements.

Products: For any business that is engaged in selling a product, the considerations are the same. The best results are achieved by offering good quality products at fair prices backed by solid guarantees. Alpacas and alpaca fiber are your products. Aim for the best quality you can produce through careful breeding and processing, set your prices based on the quality of the product, and make sure you stand behind everything you sell. If you don't have anything to sell yet, or if you are sold out, don't forget about networking with other breeders. You must have products in order to attract customers.

Customers: It is very hard to sell something if no one knows that you exist. You want to have a group of potential customers ready to purchase when you are ready to sell. Don't wait until the day your products go on the market to start marketing. You can and should market from the day you first open for business, even if your budget is limited. There are many low cost

marketing ideas out there – do some research and find a few that work for you. Once you have the names of some potential customers, begin establishing a rapport with them. Invite them to visit, send them information, and help them to learn what they need to know. Along the way you will find out how you can best assist them. If that includes purchasing alpacas, great! Now you get a chance to demonstrate your excellent after-the-sale support.

Bringing the product and the customer together:

Alpacas are easy to sell. They are so appealing that they almost sell themselves. Alpaca products sell easily too, once the customer is invited to test the softness and warmth. While the sales cycle may vary, it all starts with bringing the customer and the product together. The best way to do this is to get the customer to visit your farm. There you have their undivided attention, without any competition, and you can take the time to find out what your customers' needs truly are.

Since only a very small percentage of all potential customers will visit your farm in person, the next best option is for you to take the alpaca or alpaca products to the customers. You can do this through your presence at fairs, farmer's markets, craft shows, alpaca shows, alpaca auctions, parades and other community events. Get a list of local and regional events from the Chamber of Commerce or Farm Bureau and plan your year accordingly.

What if the customer won't come to you and you can't go to them? In this day and age of technology, a website is a 'must have' for any business. In the alpaca industry, a surprisingly large percentage of sales are 'sight unseen', meaning that the customer purchased the alpacas without going to look at them in person. Over 40% of those replying to the 2006 AOBA survey reported having purchased alpacas sight unseen. Many of these purchases are due to buyers 'surfing the web' and falling in love with a particular alpaca on a website listing. Make sure websites are part of the mix in your marketing program, and consider the importance of good quality photographs to properly show your alpacas to the on-line customer.

If you have good quality products, if you are working with leads to turn them into potential customers and if you provide good service, the word will begin to filter out that your farm is a great place to purchase alpacas or alpaca products. This process takes time, but each successful interaction builds on the last and you will wake up one day to find that sales are happening!

- **I was told that I need to show my alpacas in order to be successful, but the show ring is not my cup of tea. Do I have to show?**

There is no doubt that showing helps with marketing alpacas. Alpaca shows are full of people who appreciate alpacas and that makes these events great locations for selling alpacas. In addition, if your alpaca has won some ribbons it may have added value in the

eyes of prospective customers. If you are one of those who dreads the idea of going into the show ring, the good news is that there are other ways to accomplish the same ends. For example, you can:

- have someone else show your alpacas for you. This provides the same level of exposure and the opportunity to win ribbons, without you personally being in the show ring.
 - show your fleeces instead of your alpacas. The alpacas can stay home in their own peaceful environment while the ribbons that their fleeces win assist with marketing the animals and your breeding program.
 - show your fiber arts projects. This is especially smart if your business goals include becoming known as a fiber expert.
 - bring your alpacas to the show as companion animals (if the show will allow it) and use the event purely as a marketing opportunity.
 - skip showing altogether and create a niche selling entry-level alpacas, fiber animals, fiber products or breeding stock to customers who do not need show ribbons to add value to the animals or the products.
- **Where can I get help planning and running my alpaca business?**

It is the wise business owner who realizes that investing in continuing education is an important part of any successful business. The world of business is one of constant change, with new market forces emerging and new ideas being created daily. Don't forget to 'sharpen the saw' now and again in order to keep your successful business moving in the right direction.

While there are many educational resources out there, one of the best that I have come across is the network of Small Business Development Centers. Contact the community college near you and ask if they have an SBDC office, or go on-line to <http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html>. SBDC consultants can help you with writing your business plan, analyzing business opportunities, creating income projections, understanding profit and loss, and a host of other business questions. And the best part is that SBDC programs and consultants work for you free of charge!

Check the AOBA library for resources (go to www.alpacaowners.com, click on Library from the left hand menu, and then click on the type of item you are looking for from the Library menu on the left). There are many good publications listed which you can borrow for only the cost of the return postage.

Every AOBA conference education program includes experienced speakers who are addressing business

topics. The conference locations rotate, with one located on the eastern side of the country and one in the west every year. If you are able, plan to attend at least one of these conferences each year. Attend the business classes, even if you have heard the topic before – you will learn something new in every class! This can be your continuing education program.

Finally, adopt a mentor. The breeder that sold you your first alpacas is a good choice but if for some reason that does not work, find a farm that is successfully running the style of alpaca operation that fits well with your dreams and goals. Ask if you can spend some time with these mentors, and pay close attention to their business practices. This is an industry where people love to share their successes, and more than likely they will feel honored to be asked to mentor you.