

## Writing a Business Plan –How the Element of Time Will Affect an Alpaca Ranching Operation

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Perhaps the most important ingredient of a successful alpaca ranching operation is time. I have spoken with many people during our open house events and at fairs where Village Farm has been an exhibitor, that were thinking of alpaca ranching as a “turn key” business opportunity. As if they could buy a pair of bred female alpacas, hang out a shingle, quit their day job and become overnight gentleman farmers. Of course their animals will produce very valuable fleece in the spring, however at \$40/lb, the fleece will just about cover the cost of feed and veterinarian care. We have been averaging right around \$300/animal for the maintenance cost of hay, grain, mineral mix and routine vet bills per year. “No!” I tell these aspiring alpaca farmers. “You really need the time, for the herd to grow and to have the tax advantage kick in. I would try to think in terms of a 5 year plan... if I were starting a ranching operation”.

The first of the two key time elements in the business plan is how your herd grows over time...sometimes referred to as the “herd multiplier effect”. You can not be in the alpaca business, until you have available inventory to sell... and you do not have that until your herd has grown to a point where the foundation females and their offspring are producing at a level where you can sell off several animals and still maintain a constant herd size-- so that your ranching operation is sustainable. If you do not allow the right amount of time, and you start selling off your foundation animals or their first offspring too early, you will not be able to sustain your sales over time, since your ability to produce crias will begin to drop. There is a terrific tool found on the Northwest Alpacas web site—[www.alpacas.com](http://www.alpacas.com) that will actually calculate herd growth. For example if you start with three pregnant females...enter the assumptions of a 90% birth rate and a 50/50 mix of male to female births and so on, you can see 10 years of herd growth multiplied out base upon the assumptions you factor into the equation. If you allow the five years, I have recommended above, you would have 14 males and 14 females out of those first three pregnant girls you started with. In terms of your business plan you should “throw out” any income from the sale of males produced on the farm. Nine out of ten will be geldings or males that will be “neutered” and not used as herdsires. If you are lucky enough to produce... and then sell a top quality male as a stud...consider it gravy. So at the end of the five years time period (remember this is all about time), one could write into the business plan the sale of 4 of those 14 females. This first sale should offset the original investment in breeding stock. With 10 females left, figure 4 males and four females born on the farm the following year and you have replaced the four girls you have just sold. This would now be a more or less sustainable scenario where a conservative selling price of \$15,000-\$20,000 for a bred female would generate between \$60,000-\$80,000 to the farm, if you average selling four girls per year. Guess what? “Now you can quit the day job and become a full time alpaca farmer” In this scenario you might price six or seven of your females each year, in order to sell four. It is very hard to make a sale with selection of just a couple of animals. There is a certain point where it

becomes much easier to sell animals because you have grown to the point where you can offer some selection to potential buyers of bloodlines and colors and prices. Again that point is reached only after the requisite amount of time.

I would offer a couple of suggestions to the new owner-- in regard to maximizing production during this five-year growth period. Think about buying young proven mothers who have had no problems getting pregnant, nursing or birthing. A maiden who resorbs a pregnancy in the fall could cost a season's production, if you have to wait to re-breed her in the spring. Given a choice, a spring or early summer birth is better than a fall birth because it allows more time to re-breed. Sooner or later, females that are on a fall birth schedule will have to "skip a breeding season" and be held over the winter (at least here in Maine given the cold). That means one less cria born on the farm and one less animal you will have to sell in two years. Lastly, think about a Junior Herdsire from the very beginning of starting the farm. Without an intact male on the farm, you will not be able to see fence line behavior and you will not be able to "spit test" to confirm pregnancy. We know of several examples of new breeders who had females who resorbed pregnancies. They lost a season's production because they did not know about it until the girls were due to give birth. Buy a Junior herdsire for \$5,000-\$8,000 and he will pay you back several times in helping to maximize production on the farm.

By the way, did you figure out that it will take 22 breeding fees of \$2,000-\$2500 average cost to get from three pregnant females to 14 males and 14 females. Figure that as well into the business plan and figure much less the sooner you get a herdsire onto the farm.

The second key time element in writing the business plan is depreciation. The longer you hold off selling any alpacas and wait for the herd to continue to multiply, the longer the ranching operation takes a loss that can be taken against your other income. Many alpaca farmers have reduced their taxable incomes substantially during the growth stage of their ranching operations. Typically breeding stock can be depreciated over 5 years. However one should consult with an accountant to find out about the 179 deduction, which allows for depreciation up to a maximum amount all in one tax year. The way in which a farm times their depreciation on their animals can greatly affect their total tax exposure.

Lastly, a new farm should consider the time element in their other end of the business...the sales and marketing side. A recent AOBA marketing survey shows that half of the new owners are doing little or no marketing. Many make the mistake of waiting until they have animals to sell until they start going to fairs, putting up a web site and getting the word out about how terrific their breeding program has been. That same marketing data however, also shows that new alpaca buyers often take several years to finally get set up to make an actual buy. You have to consider the lag time it will take for your marketing efforts to begin to have some traction. You can not turn on the marketing effort over night, it takes time to refine and time to start to have the desired effect.

