

Some Hard Truths About the Alpaca Industry

By Sheila Scroggins

If you have not yet looked at the AOBA 2010 Membership Survey results you probably should. The information is startling. In the last decade the lowest year for alpaca business start ups was the year 2000.⁽¹⁾ So what was going on in the year 2000 to affect the alpaca business? The short answer is, a recession. What is the new business startup in the year 2010? There were nearly an identical number of business startups in 2010 as in 2000.⁽¹⁾

The actual 2000 recession was short, eight months. Compared to the last two years, this earlier recession was much less consequential for the alpaca farmer. The long term financial recovery of the 2000 recession lasted much longer than the actual recession.⁽²⁾ The National Bureau of Economic Research did not declare the 2000 recession over until 2002. We can extrapolate that the recovery from the current recession will be protracted even longer. That is, of course, if this recession is actually over.

If you look at new ranch growth after the 2002 financial alpaca recession recovery, you see a steady increase in numbers of business startups until a peak in 2005, then a plateau until 2009. After 2009 a steep decline was seen until the year 2011. No one will dispute that this particular recession trumps the 2000 recession. Not only has the decline been steeper, but the recovery period will also last longer.

Are you a business pessimist or an optimist? It seems AOBA members are split pretty much down the middle when asked for a prognosis about the industry. The AOBA members surveyed, who doubt a return to previous levels of profitability, is about 47% and those who are more optimistic about our future is about 52% of respondents.⁽¹⁾

Probably the most startling statistic that represents just how depressed the industry is in the years 2009 to 2011, is the number of customer leads to AOBA for those years. In 2006 inquiries into AOBA by potential new owners was 18610 and in 2010 it was 3562. This represents an 81% decline in enthusiasts for alpacas.⁽¹⁾ AOBA's statistics show that in those years between 2009 and present, inquiries were stagnant at 19% of the



peak in 2006.⁽¹⁾ The statistics tell a story we are all aware and some are afraid to admit. We, like those in many industries, are holding on by our fingernails and asking ourselves, "Should I expand with the depression of prices or hold off and maintain a lower expense ratio and ride it out until recovery?" Some owners just can't ride it out.

The market pricing for alpacas in the past was inflated and bound to deflate, just like the housing bubble. The question belies was this a bubble that has burst forever, never to be profitable again? Or is this the alpaca market adjusting itself during this recession? Richard Sexton, agriculture economist at UC Davis thinks it was always a speculative bubble destined to burst, recession or not.⁽³⁾

Sexton, in 2006, studied the alpaca industry and asked the question; "...whether today's current prices for alpaca stock can be justified by fundamental economic conditions governing the industry, or whether alpacas represent the latest speculative bubble in American agriculture".⁽³⁾ His contention is that the alpaca will go the way of other exotic animals, (ostrich and the emu) and that the similarities between the two are too great to discount.⁽³⁾ Ultimately, he contends that the animals' ultimate profit value is in the fiber and that the capital outlay for

each animal does not, nor will it ever, reach a threshold of profitability for the United States herd.⁽³⁾ These are some stark claims and potential realities.

There is some truth in Sexton's appraisal of the alpaca industry; to say otherwise is to deny reality. The big question is, "Will the industry adapt to a new market, a new economy and thrive in a new business paradigm?" I believe the answer is "Yes." We are currently taking steps in the direction of this new paradigm with "Build a Tent." The only way to reach fiber sales that make the alpaca profitable for the average owner and breeder will be to have the finest fiber in the world and a viable fiber market. Our alpaca prices today are much more in line with a potential for profitability of their fiber in the long term, if and when the fiber industry and demand for the fiber eventuates.

The profitability of an alpaca generated from the show ring, will slowly diminish with the introduction and integration of genetics as a basis for breeding. Shows will always have value but will become less pivotal in an alpaca's worth. The fiber and its heritability will be the premise by which profitability stems.

Author Eric Hoffman's perspective is that "the challenge to alpaca growers is to create a more consistent quality of low micron fiber in a greater percentage of the alpaca population".⁽⁴⁾ We are heading toward that end with the new EPD program. We are making progress toward a much greater focus on fiber consistency, but we need more. AOBA's latest survey results beg the questions, "Where do we go from here? How do we guide our future away from the fate described in Sexton's speculative bubble prediction into a transformative new and different viable alpaca industry again?"

These are the questions AOBA is, and should continue to ask. All organizations in the industry should be building consensus on a vision for the future of the alpaca industry. Most importantly, these organizations should be actualizing the vision with resources.

We have a way to go to prove Sexton's hypothesis inaccurate, and there will be a cost. We need to develop political influence. Every agriculture industry knows the benefit of having a voice in the legislature, and the best way to

influence our future is with political might. The industry needs a political action entity with lobbying influence. If we join together financially we have the numbers to generate significant political action funds. The Build A Tent Foundation, and now Alpaca United, seem poised for such purpose. I encourage all owners and breeders to contribute to this endeavor. While we sit back and weather the recession our long term individual business efforts should be redirected into to a collective effort if we are to survive as an industry.

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