

Using a Business Plan to Move Your Alpaca Farm From Hobby to Revenue Generator

Presented by Rebecca Gill of Cotton Creek Farms



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♥ Wife

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What Moves an Alpaca Farm from Hobby to a Successful Business?

- It's the creation **and** execution of a solid business plan.
- Whether you're a small, new farm or a large, existing farm, you should have a business plan that is reviewed and updated each year.
- A good business plan is a living document that guides you through the process of starting and managing your alpaca farm long-term.
- The most successful farms use their business plan as a roadmap for how to structure, operate, and grow their business.



Today's Agenda

- Why you don't want to be a “hobby farm”
- Components of a business plan
- Start your journey with questions
- Do your homework and document the process
- Craft your business plan
- Evaluate your herd
- Find balance
- Feed and nurture your plan

A Hobby Presents Limitations

Allowable Hobby Deductions

- Within certain limits, taxpayers can usually deduct ordinary and necessary hobby expenses.
- An ordinary expense is one that is common and accepted for the activity.
- A necessary expense is one that is appropriate for the activity.

Limits on Hobby Expenses

- Taxpayers can only deduct hobby expenses up to the amount of hobby income.
- If hobby expenses are more than its income, taxpayers have a loss from the activity. **However, a hobby loss can't be deducted from other income.**

Is Your Farm a Business or Hobby?

- In making the distinction between a hobby or business activity, consider all facts and circumstances with respect to the activity.
- A hobby activity is done mainly for recreation or pleasure.
- No one factor alone is decisive.
- You must consider a number of factors to determining whether farm is a business engaged in making a profit.

Source: <https://www.irs.gov/faqs/small-business-self-employed-other-business/income-expenses/income-expenses>

The IRS' Criteria for a Business

- Whether you carry on the activity in a businesslike manner and maintain complete and accurate books and records.
- Whether the time and effort you put into the activity indicate you intend to make it profitable.
- Whether you depend on income from the activity for your livelihood.
- Whether your losses are due to circumstances beyond your control (or are normal in the startup phase of your type of business).
- Whether you change your methods of operation in an attempt to improve profitability.
- Whether you or your advisors have the knowledge needed to carry on the activity as a successful business.
- Whether you were successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether you can expect to make a future profit from the appreciation of the assets used in the activity.

When we first met with our CPA to discuss the farm, he quickly told us stop calling it a hobby farm. He was right!

Our Farm Really Was a True Business

- Lots of Research
- Formal LLC
- Owner Investment
- Business Bank Account
- Logo
- Website
- Social Media Profiles
- Actual Sales of Alpacas
- Ancillary Sales of Products
- Formal Business Plan
- Formal Budget
- Accounting Software
- Itemized List of Expenses
- Itemized List of Sales by Product
- Itemized List of Sales By Customer
- Formal Profit and Loss Statement
- Sales Tax License With State
- Annual Report Submission to State
- Full Paper Trail of Everything
- Lots of Sweat Equity

We hit a major milestone when we shifted our mind and verbiage from hobby farm to business. It forced us to have a business plan and use this plan to make better decisions based on both short-term and long-term goals.



When done right, business plan creation and modification is fun. It's an opportunity to dream, to explore, and to formulate the life you want.

Tips for Successful Business Plan Usage

- Make it fun by dreaming big
- Stay realistic by discussing it with others
- Keep it alive by updating it quarterly or annually
- Make sure it stays focused on your “why”



12 Components of an Alpaca Farm Business Plan

- | | | | |
|----|----------------------|-----|----------------------|
| 1. | Mission statement | 7. | Differentiators |
| 2. | Business description | 8. | Revenue streams |
| 3. | Target market | 9. | Revenue goals |
| 4. | Competitors | 10. | Marketing activities |
| 5. | Market opportunities | 11. | Major expenses |
| 6. | Market threats | 12. | Milestones |



Don't be stressed.
We're walking through each
one today to get you started.

Mission Statement

- A mission statement is a short paragraph of why a farm exists and it provides an overview of the farm's overall goals.
- These are usually a few sentences that provide the “why” behind the who.
- A component of our mission statement involves wanting to give back to the community around us. It's important to us and it will be an important part of our future farming activities.

Business Description

- This simply describes your business.
- Talk about who are you, who you serve, and what you plan to offer in the form of goods and services.
- This will all offer a nice overview of your farm and future activities.

Target Market

- Your target market is the group(s) of people you'd like to serve. Or, in other words, who will you sell goods and services to?
- Defining your target market, understanding their needs, and knowing their wants will help you craft an offering that will resonate with them.
- When you connect with and serve your target market, you set yourself up for success.

Competitors

- Your competitors could include local farms, national farms, big box retailers, and virtually any entity that exists online.
- Once you define your mission statement and target market, you'll be able to list your competitors.
- Researching and knowing your competitors is an important part of setting yourself up for success.

Market Analysis

- You'll need a good understanding of the alpaca industry and your preferred target market.
- Competitive research will show you what other alpaca farms are doing right, and it will help you see what you can offer that exceeds the current state of your competition.

Market Threats

- Market threats could include the economy, competitors, technology, resources, environment, and really anything that could hamper your ability to execute your business plan.
- Knowing what these threats are will help you navigate around them.

Differentiators

- Explain the competitive advantages that will make your alpaca farm and business a success.
- What sets you apart from other farms?
- What will you offer or do differently than these existing farms?
- How can you improve the alpaca industry or your local area?

Revenue Streams

- Explain how your farm will actually make money and generate a profit for the farm.
- List this out **and document** any ideas that you've thought of or came up with during your brainstorming efforts.
- Makes this list part of your business plan and change it as the business evolves.

Revenue Goals

- This doesn't have to be exact, but you should list out how much revenue and net profit you'd like to obtain from your above revenue streams.
- I set this at an annual amount and then break down to a monthly amount.
- By knowing my revenue goals, I can better establish my priorities for purchases and operational activity.

Marketing Plan & Activities

- If you build it they will come.
- **No.** No they will not.
- You need to help people know who you are and what you offer.
- OpenHerd.com is not a marketing plan. It is one activity in a much larger plan.
- Alpaca farms have lots and lots of marketing options.

Major Expenses

- With alpaca farming, the bulk of your expenses will include the alpaca herd, shelter, fencing, food, and ongoing care for shearing, medications, and an occasional vet visit.
- If you plan on converting your fiber into yarn, you'll need to add in the cost for a fiber mill or plan on cleaning and spinning the fiber yourself.
- But what about marketing?
- What about expansion and growth?

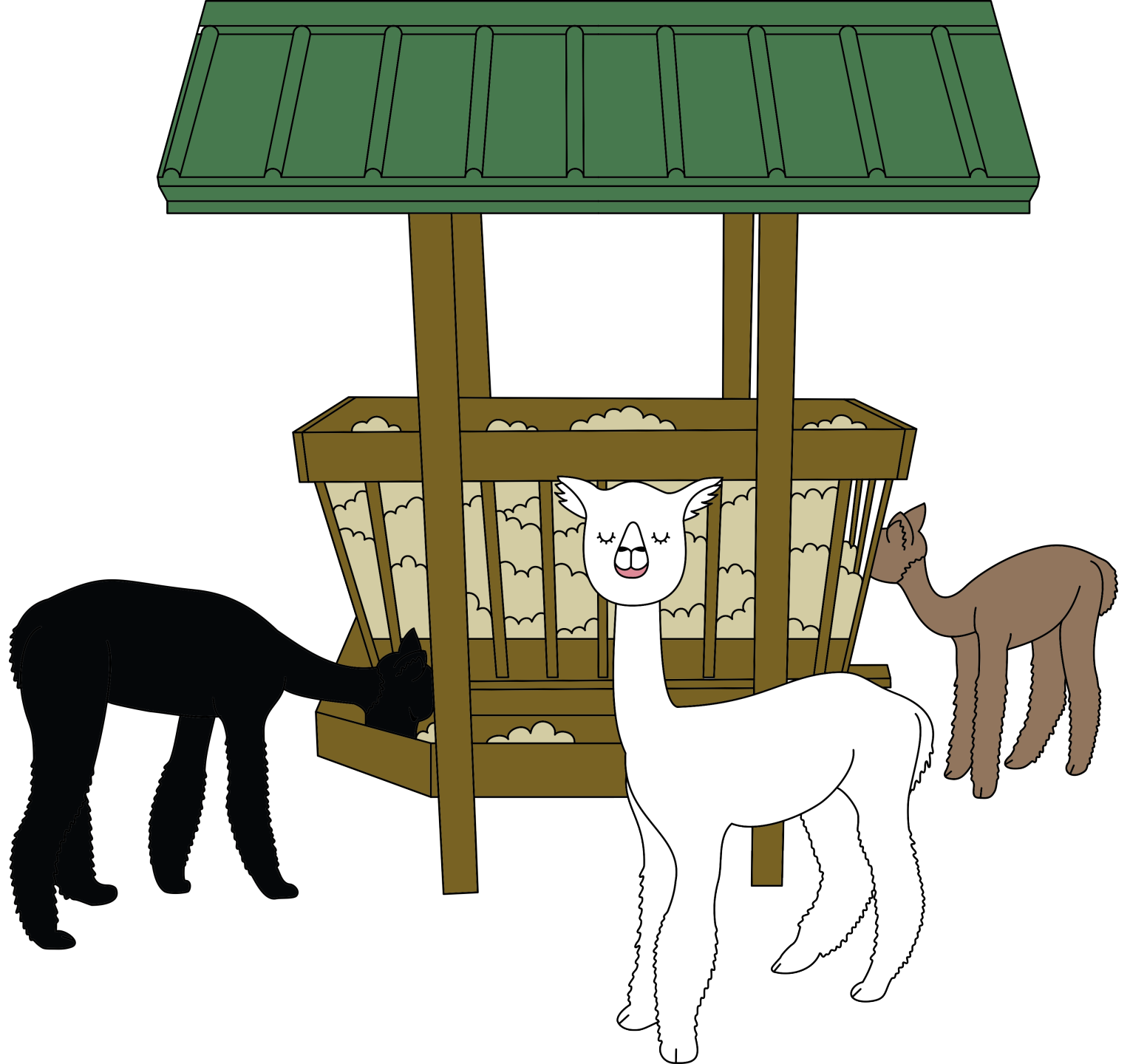
Milestones

- No business plan can be complete without setting some milestones.
- These milestones are major events that must take place to execute your plan.
- This could include financing, barn build and fencing, alpaca herd acquisition, website build, creating a Facebook page, making your first sale, or farm expansion.
- Or if you're anything like us, it equates to the first barn and the second barn, and so on.



Time for
Questions

Mission Statement





Start with why...

Why do alpacas matter to you?
Why did you start a farm?
Why is revenue important?

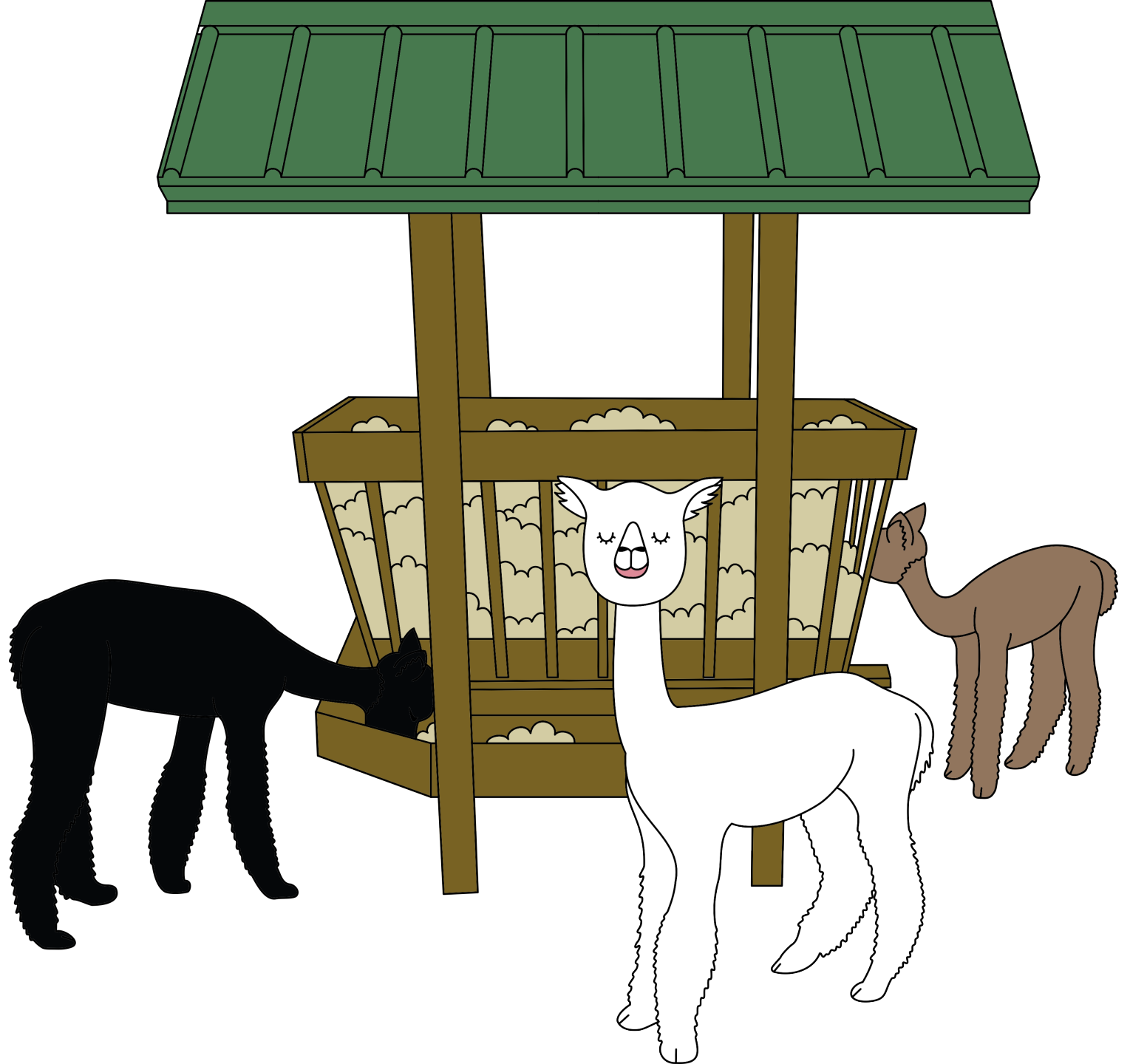
What is your WHY?

- Your why is:
 - Your purpose
 - Your cause
 - Your belief in something bigger than yourself
- People don't buy the “what” you do or “how” you do it. People buy into your why.
- Alpaca buyers tend to dream about owning alpacas. They know their why.
Help them know your why.

Exercise #1: Why Do You Have Alpacas?

1. Why does owning an alpaca farm matter to you?
2. Why did you start an alpaca farm?
3. Why is revenue important?
4. What are your goals?
5. Why do those specific goals matter?

Business Description



The 5Ws and How

Authors use the “5Ws and How” to frame their stories. It’s time for you craft your story:

- Why do you do what you do?
- Who are you? Who do you serve?
- What do you offer?
- When is it offered?
- Where is your farm? Where do you market? Where do you sell?
- How do you execute?

Exercise #2: What Do You Offer?

What Do You **Currently** Offer?

- ☐ Alpacas for sale
- ☐ Breeding
- ☐ Boarding
- ☐ Raw fiber
- ☐ Products made of fiber
- ☐ Alpaca manure
- ☐ Agritourism events
- ☐ Alpaca rentals
- ☐ Therapy sessions
- ☐ Community outreach

What Do You **Want** to Offer?

- ☐ Alpacas for sale
- ☐ Breeding
- ☐ Boarding
- ☐ Raw fiber
- ☐ Products made of fiber
- ☐ Alpaca manure
- ☐ Agritourism events
- ☐ Alpaca rentals
- ☐ Therapy sessions
- ☐ Community outreach

Exercise #2: Who Are You?

1. Who You Are

How would you describe your business to a potential customer?

2. What You Do

How would you describe your product or service offering?

3. Rephrase

How would you describe the above answers if you were talking to your great-grandmother? Does it now make sense to those unfamiliar with alpacas?

4. Your Differentiators

What sets you apart from your competition?

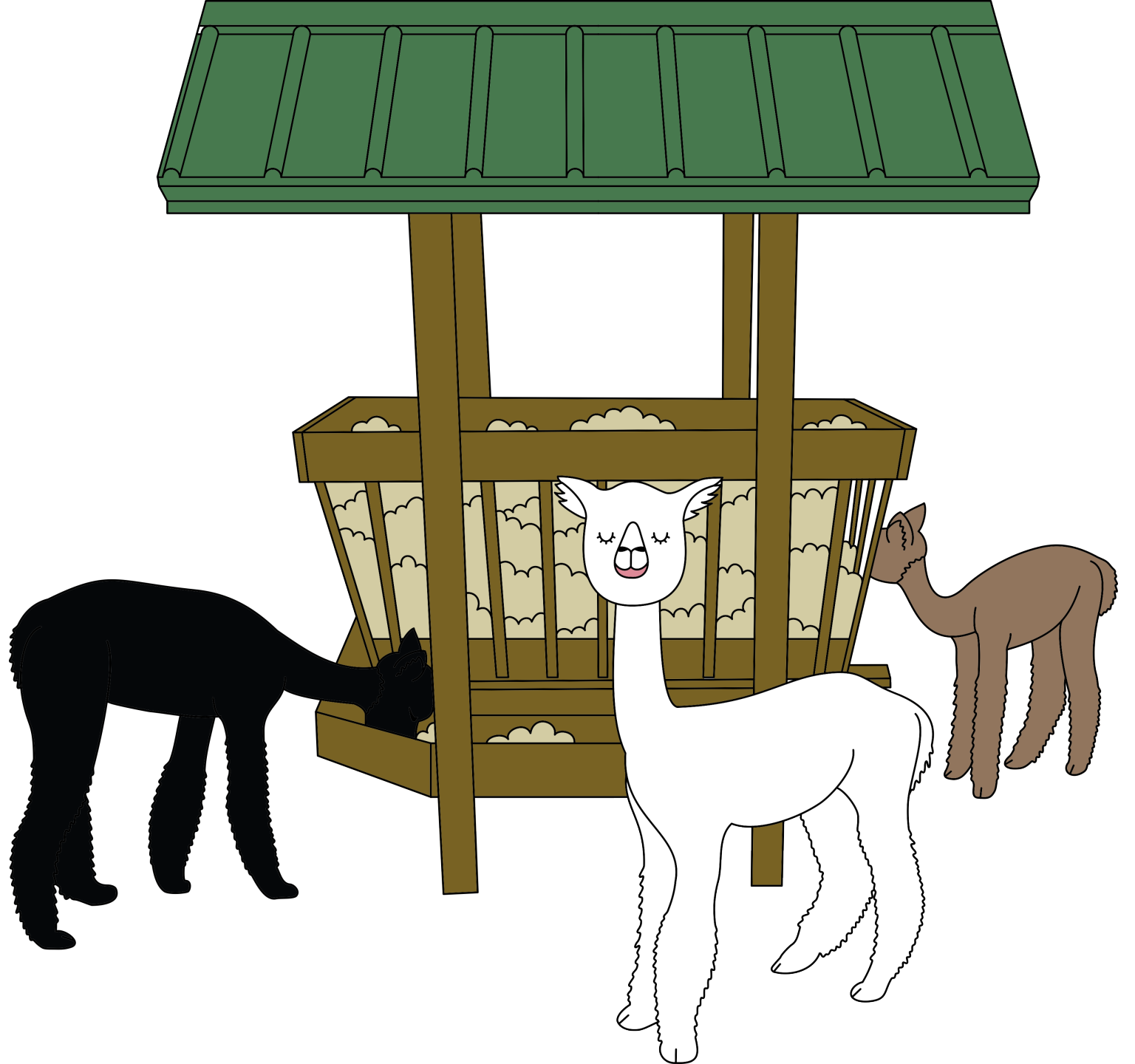
Exercise #3: Who Are You?

5. Now take that information and craft a business description that is 3-5 sentences long.

6. Ask yourself if this description included answers to your questions:

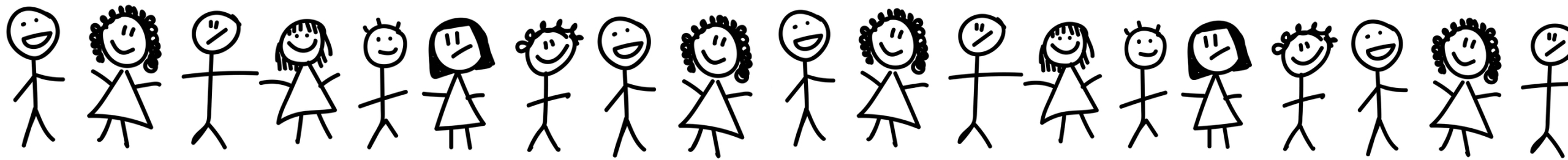
- Why do you do what you do?
- Who are you? Who do you serve?
- What do you offer?
- When is it offered?
- Where is your farm and where do you market and sell?
- How do you execute?

Target Market



Who is Your Target Market?

- New or existing alpaca farms?
- Show, hobby, or pet buyers?
- Adults, kids, or families?
- General public or a specific community?
- Patients of abuse, addiction, or PTSD?



Exercise #4: Who is Your Target Market?

1. Target Market Overview

How would you describe your ideal customer or client?

2. Target Market Groups

Is it possible to group your target audience into segments?

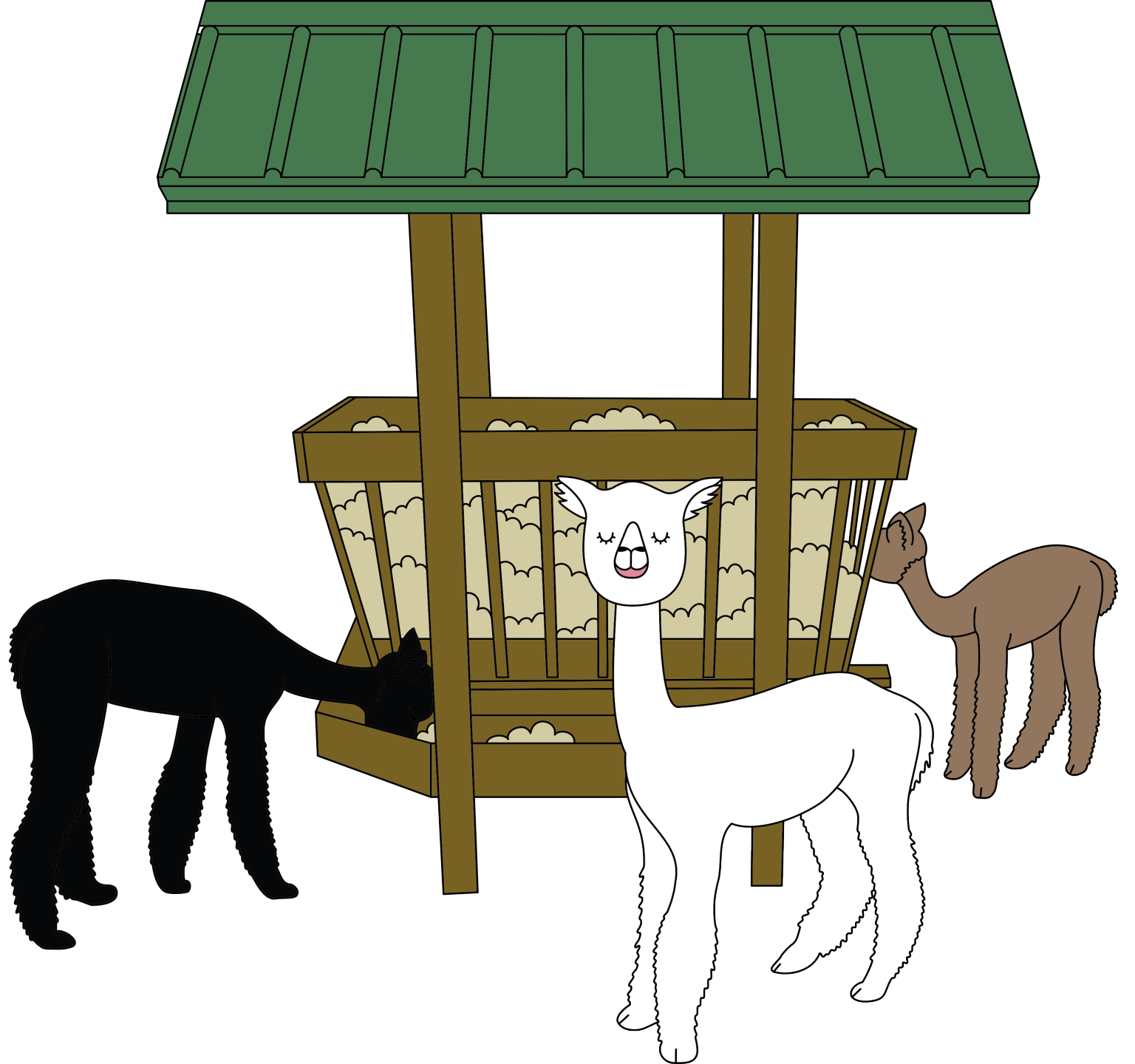
3. Segment Needs

Do different groups have different needs?

4. Persona to Offering Alignment

Does your current offering align with the target market you want to serve?

Competitors



Research, Review, and Evaluate Competitors

- Local alpaca farms
- National alpaca farms
- Big box retailers
- Etsy sellers
- Facebook sellers
- Craigslist
- Rescues

Competitors Are Everywhere

Think past alpaca farms.
Think about what you offer
and view competitors specific
to each offering.
Document your competitors.
Research your competitors.

Alpaca Sales & Breeding

Local alpaca farms
National alpaca farms
Craigslist & Facebook
OpenHerd.com
Rescues

Fiber & Yarn

Local farms
Big box retailers
Etsy
Facebook groups

Alpaca Products

Local alpaca farms
Online retailers
Craft shows

Agritourism

Local alpaca farms
Any farm that offer ag events
Any local event venue

Exercise #5: Who Are Your Competitors?

1. Traditional Competitors

Who do you consider to be your top local competitors?

2. Online Competitors

Who do you consider to be your top online competitors?

3. Competitors by Offering

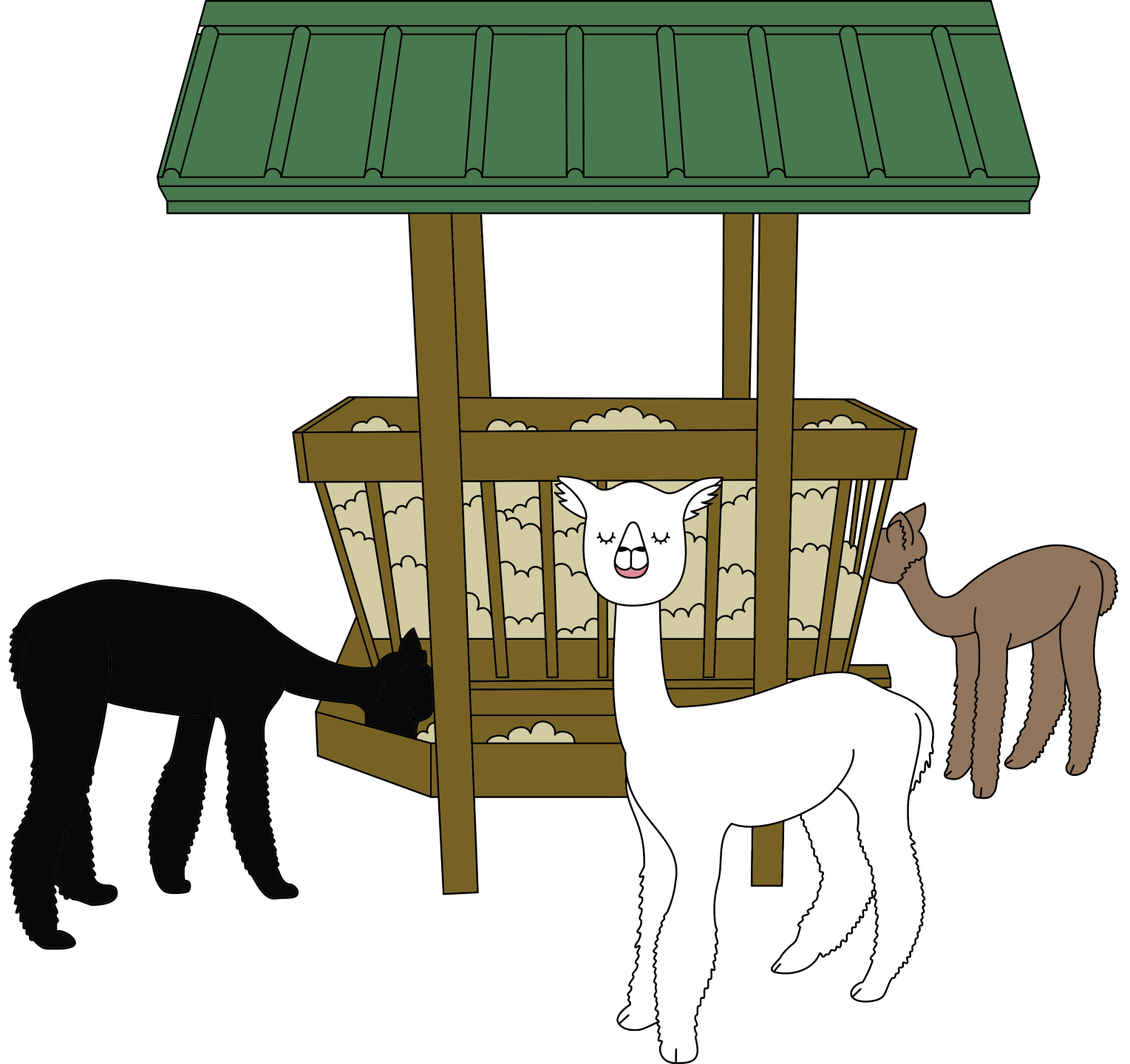
Do your competitors change by offering?

4. Competitor Strengths and Weaknesses

What do you consider to be your competitor strengths?

What are their weaknesses?

Market Opportunities & Threats



SWOT Analysis

A SWOT analysis maps out helps formulate your business plan by identifying strengths and weaknesses (internal attributes) and opportunities and threats (external conditions).

Uncover your farm's competitive position with these guiding questions. Use the blank framework on the next page to start filling out your own SWOT analysis.

Strengths

Knowledge
Time
Assets
Finances
Location
Relationships
Technology

Weaknesses

Knowledge
Time
Assets
Finances
Location
Relationships
Technology

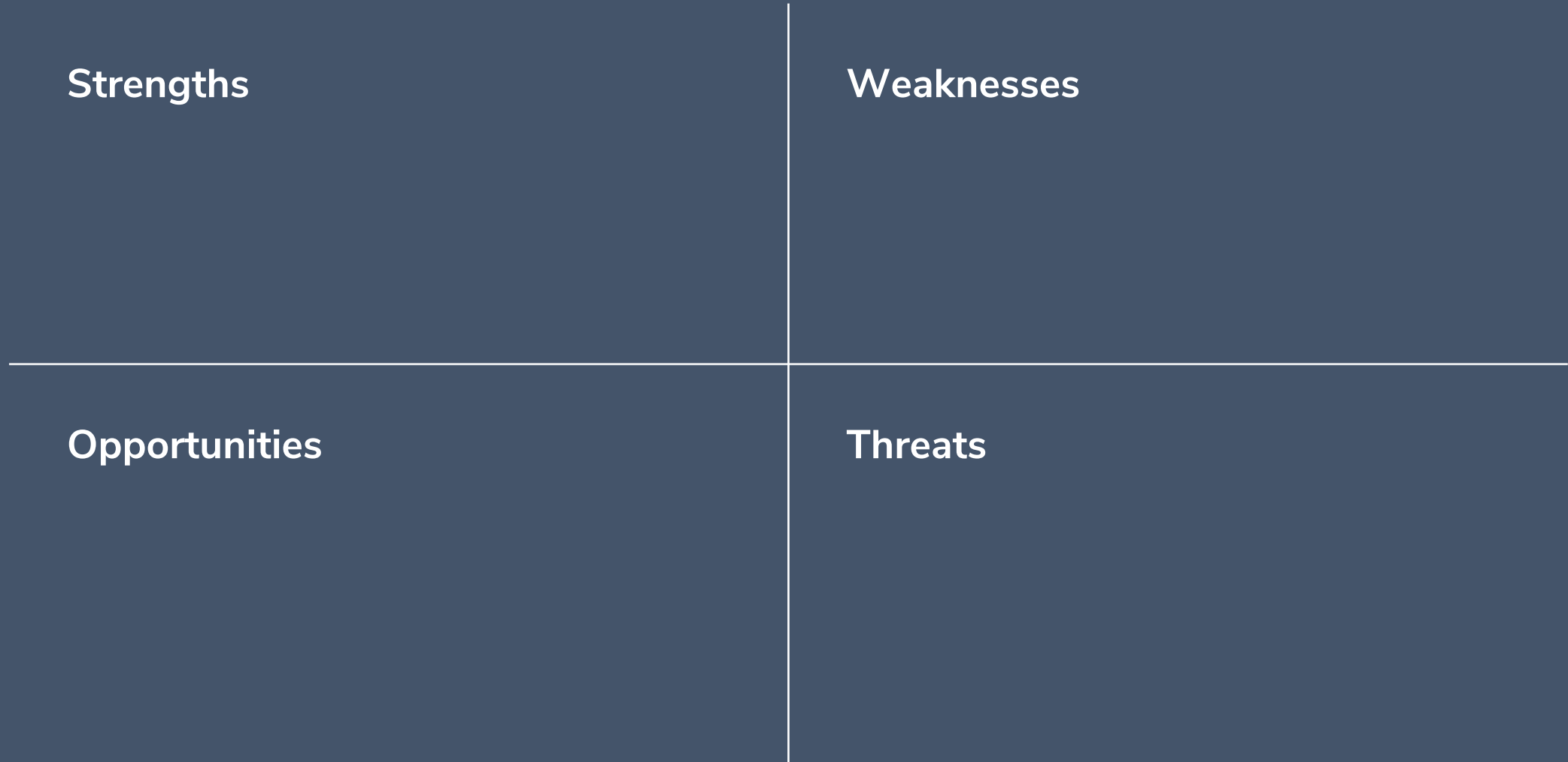
Opportunities

Industry Trends
Weak Competition
Local Support
Untapped Niche
Usage of Your Strengths

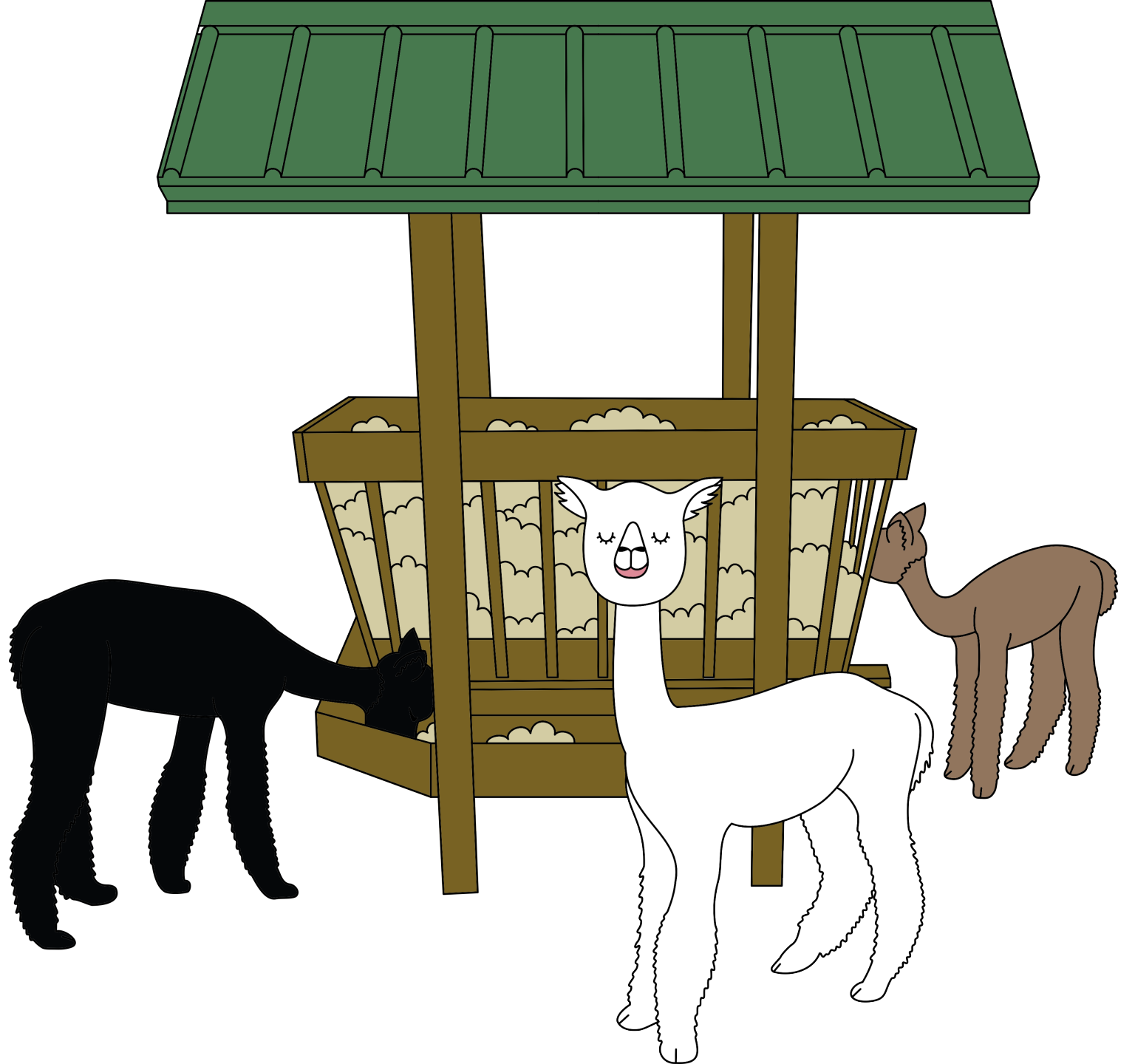
Threats

Competitor Shift
Pandemic
Economy Competitors
Environment
Technology Failures
Lost Resource
PETA

Exercise #6: Start Your SWOT Analysis



Differentiators




Examples of Differentiators

- Knowledge and Experience
- Niche Focus – Greys, appaloosa, etc.
- Quality – Micron, crimp, etc.
- Availability
- Selection
- Price – Caution! No one wins when you race to the bottom.
- Geography
- Service
- Ongoing Support – Medical assistance, mentorship, etc.

Exercise #7: What Are Your Differentiators?

- ☐ Alpacas for sale
- ☐ Breeding
- ☐ Boarding
- ☐ Raw fiber
- ☐ Products made of fiber
- ☐ Alpaca manure
- ☐ Agritourism events
- ☐ Alpaca rentals
- ☐ Therapy sessions
- ☐ Community outreach



Think about what makes you unique as a farm, but also at each product or service you offer.

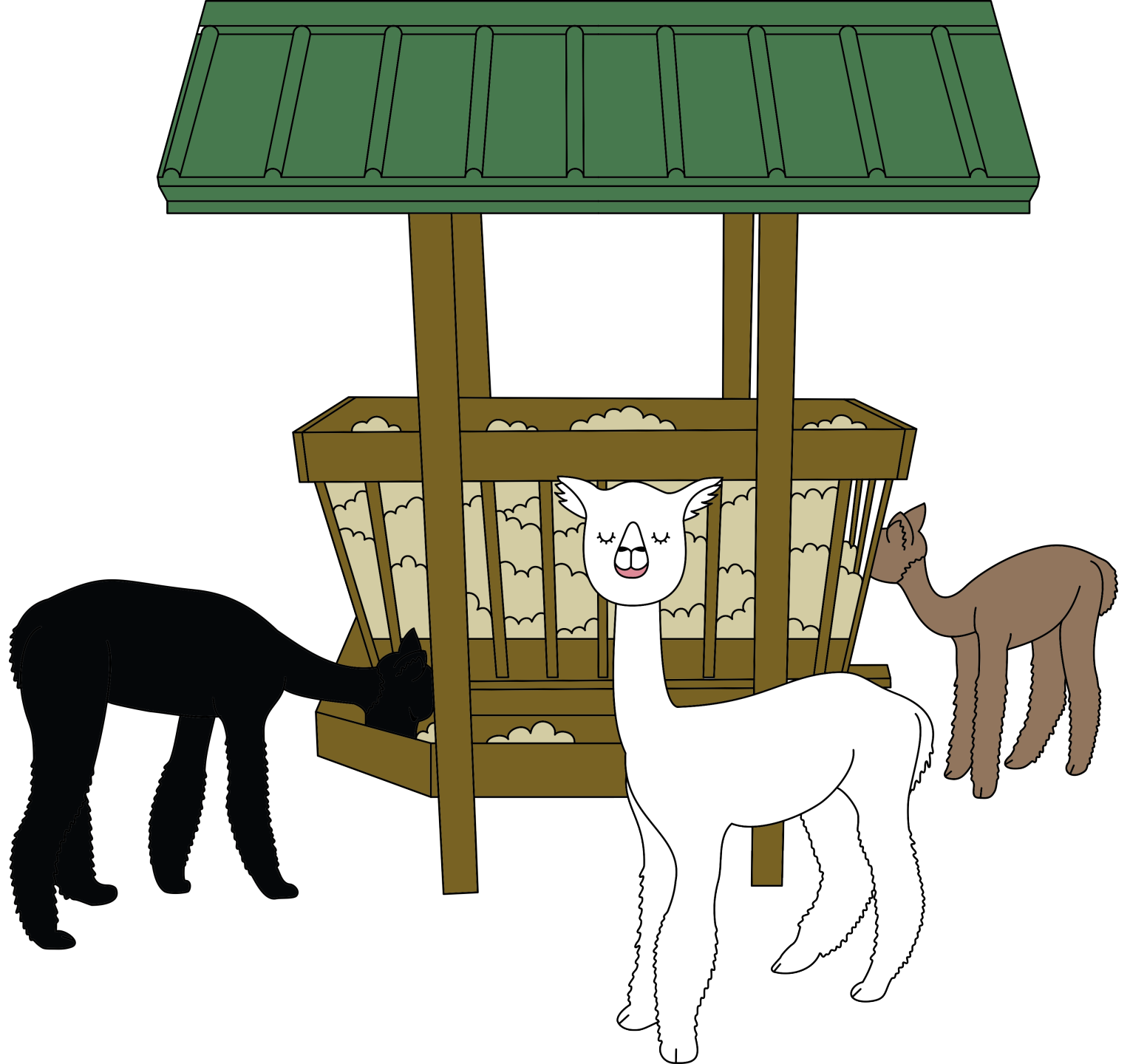
Go back to your competitor list and your SWOT analysis. Let that guide you.

Once you have your list of differentiators, weave it into your marketing efforts and sales process.



Time for
Questions

Revenue Streams and Income Generation



How Do You Serve Your Target Market?

- Alpacas for sale
- Breeding
- Boarding
- Raw fiber
- Products made of fiber
- Alpaca manure
- Agritourism events
- Alpaca rentals
- Therapy sessions
- Community outreach



How Does Your Farm Make Money?

- **Transaction revenue:** Sales of goods that are usually one-time customer payments.
- **Service revenue:** Revenues are generated by providing service to customers and are calculated based on time.
- **Recurring revenue:** Earnings from ongoing payments for continuing services or after-sale services to customers. This is predictable and it assures a source of future revenue.

Example Revenue Streams

Transactional	Service	Recurring
Alpaca Sales	Breeding	Boarding
Raw Fiber	Alpaca Rentals	
Yarn, Roving, or Felt	Agritourism Events	
Products Made from Fiber	Therapy Sessions	
Alpaca Manure		



To maximize revenue...

You need to use every part of your alpaca fiber. That includes firsts, seconds, and thirds. All of it can be used.

Maximize Your Products to Maximize Revenue

- Baby booties
- Baskets
- Blankets
- Bowls
- Cat toys
- Chair cushions
- Christmas ornaments
- Coats
- Comforters and duvets
- Dog beds
- Dog sweaters
- Doilies
- Drink coasters
- Dryer balls
- Earmuffs
- Felt
- Fingerless gloves
- Gaiters
- Glittens
- Gloves
- Hats
- Headbands
- Hoodies
- Horse saddles
- Hot water bottle covers
- Keychains
- Leg warmers
- Long Johns
- Mittens
- Nesting balls
- Pants and slacks
- Pillows
- Pin cushions
- Ponchos
- Puppets
- Purses
- Rugs
- Scarves
- Shawlettes
- Shawls
- Shoe insoles
- Shoes
- Ski vests
- Sleeping bag liners
- Slippers
- Soap
- Socks
- Stuffed animals
- Sweaters
- T-shirts
- Tights
- Toys
- Wraps
- Yarn



Remember to
Focus on
What You Love

Example Revenue Streams

Transactional	Fiber Usage	Service	Recurring
Alpaca Sales	Yarn	Breeding	Boarding
Raw Fiber	Knit Hats	Alpaca Rentals	
Alpaca Manure	Dryer Balls	Agritourism Events	
	Nesting Balls	Therapy Sessions	
	Rugs		

Exercise #8: What Are Your Revenue Streams?

Transactional	Fiber Usage	Service	Recurring

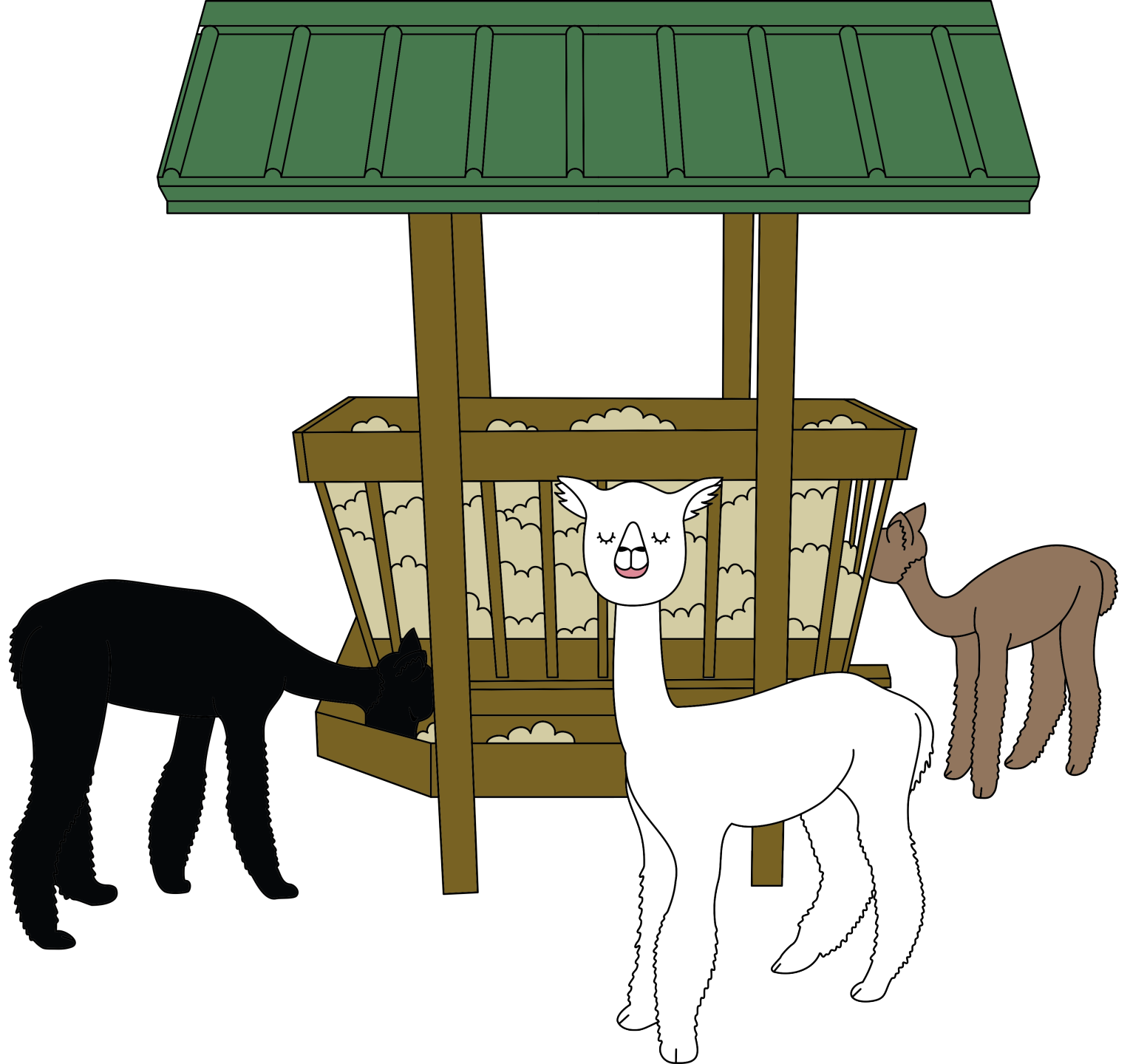


Take a step back...

Does this list match your
target market?

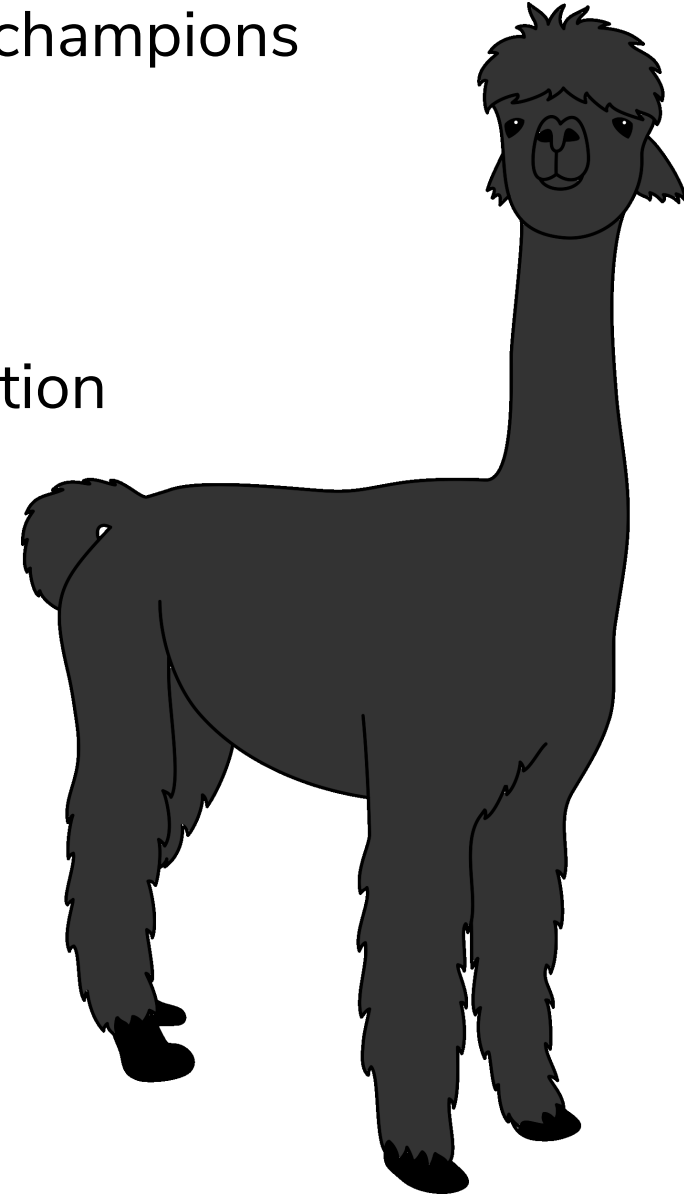
Does this list match your
business goals and your why?

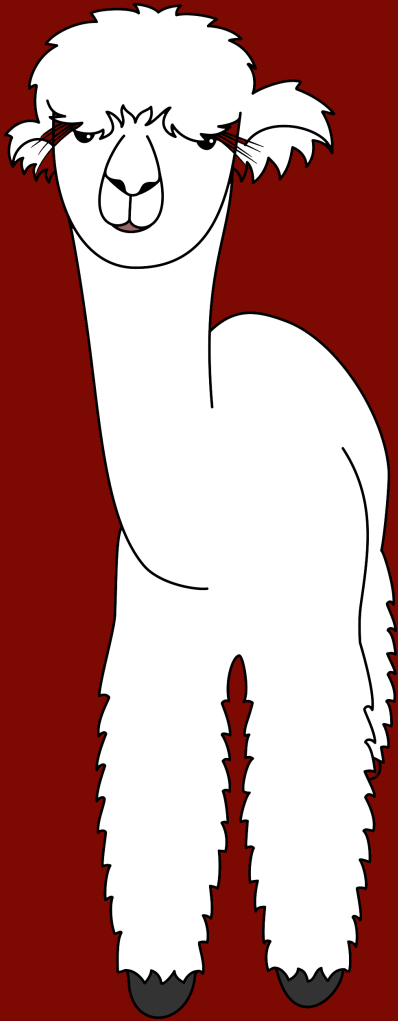
Herd Selection and Planning



What Type of Alpacas Do You Really Need to Support Your Goals?

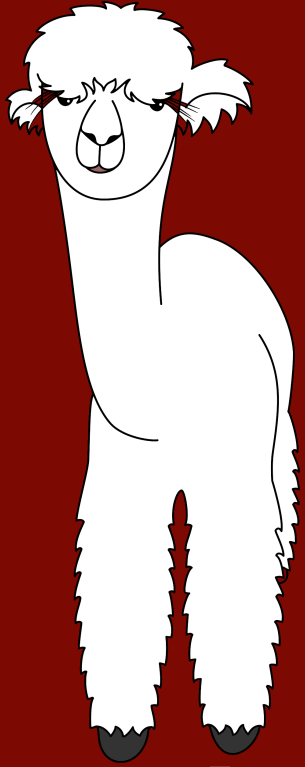
- Elite genetics and show champions
- Show worthy
- Breeding females
- Herdsires
- Commercial fiber production
- Hobby fiber production
- Pet
- 4-H
- Agritourism
- Rescue





Match your alpacas to your target market, usage, and specific business goals.

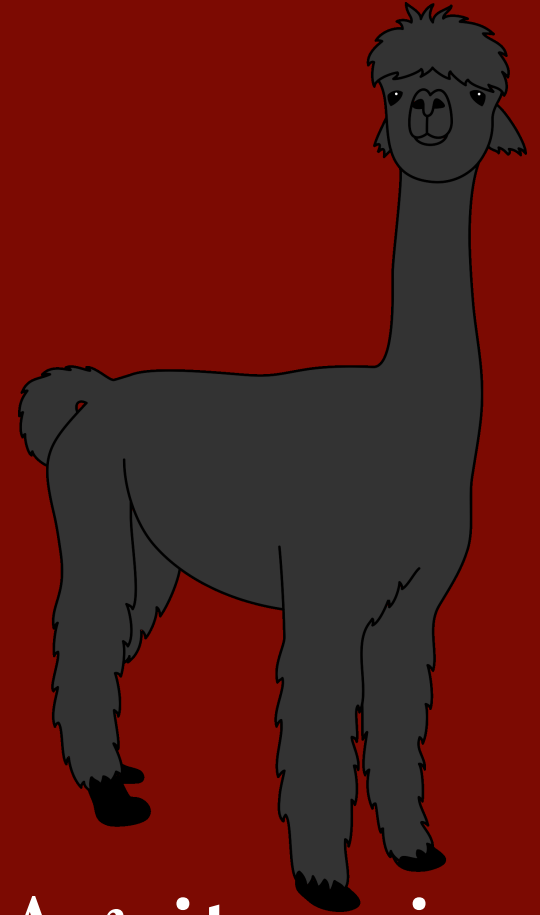
Everyone Goes into at Least One Bucket!



Breeding



Fiber Production



Agritourism

Bean & Zula

- Part of a larger package.
- High micron count, so limited to felt and dryer balls.
- Unable to breed.
- **Both ladies were rock stars of agritourism, and everyone loved them. They had purpose.**



Nibbler

- Undeveloped crimp and density as cria.
- Family vote to purchase. Dad lost.
- Fiber machine.
- Agritourism rock star.
- Loves mom hugs and sunshine chats.
- Nibbler has purpose.



Constantly Evaluate Your Herd

- Histograms
- EPDs
- Lineage
- Show history
- Breeding ability and care of crias
- Personality
- Appearance
- Fleece Weight
- Fiber usage
- Age
- Color

Example Herd Evaluation

	Bean	Nibbler	Bubbles	Grace
Fineness	Poor	Excellent	Poor	Excellent
Crimp	Poor	Poor	Poor	Excellent
Staple Length	Average	Excellent	Average	Average
Density	Excellent	Poor	Average	Excellent
Uniformity	Average	Average	Poor	Excellent
Fleece Weight	Excellent	Excellent	Poor	Average
Conformation	Poor	Average	Average	Average
Cuteness	Average	Excellent	Excellent	Average
Personality	Excellent	Excellent	Average	Average
Color	Bay Black	Brown	Appaloosa	White
Ability to Breed	No	Yes	Yes	Yes
Age	8	2	4	4



Ask yourself...

Who stays?

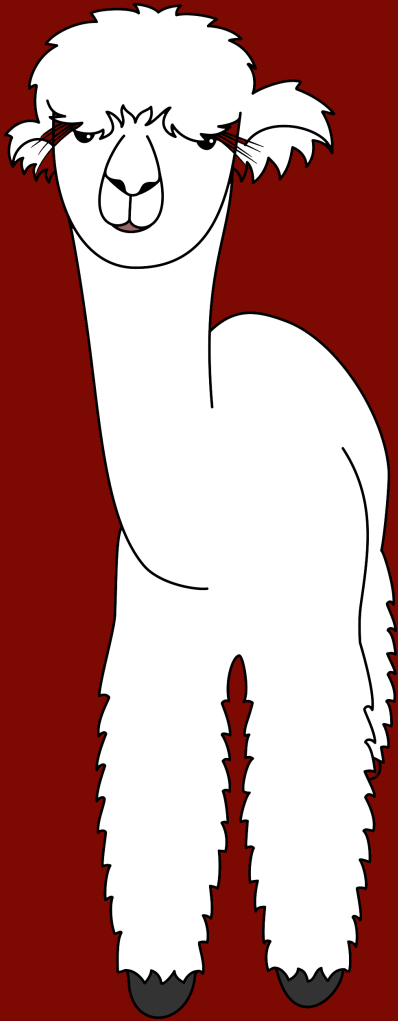
Who is sold?

Who is retired?



Almost everyone has a price...

*Don't just ask yourself if an
alpaca is a breeder or for sale.
Ask yourself at what price
makes them sellable.*



Give yourself some grace.
Sometimes you'll have an
alpaca that tugs on your
heart but may not fit within
the plan. On our farm we call
these non-negotiables.

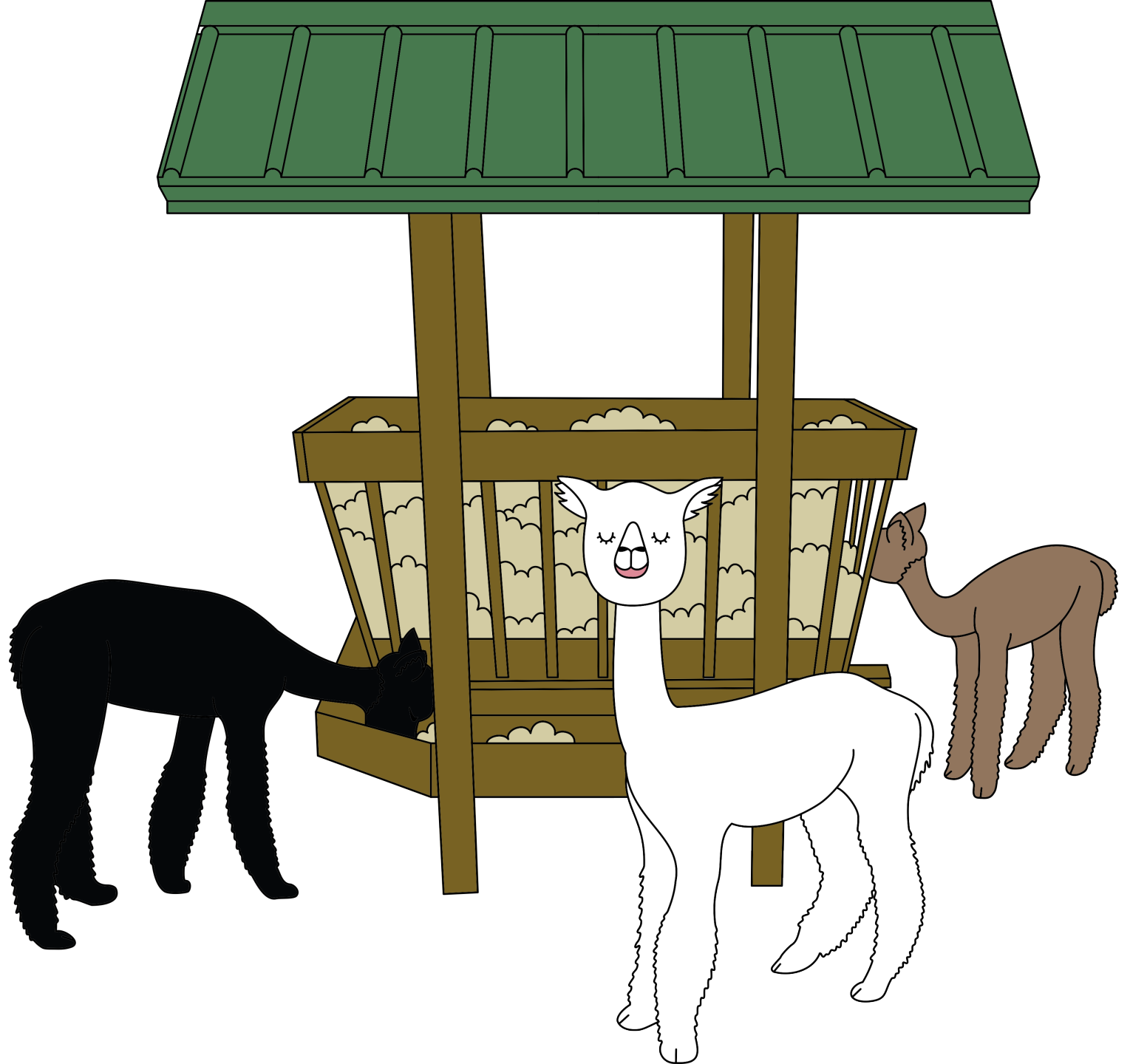
Herd Usage and Purpose

	Show Circuit	Breeder	Fiber Producer	Agritourism	4-H	For Sale	Non-Negotiable
Bean				X		Yes	
Zula				X		Yes	
Dolly	X	X	X	X			
Nibbler		X	X	X			Mom's Favorite
Centuria		X	X			Yes	
Old Amber				X			Personal Favor
Lilly Grace	X	X	X				
Sherry Ann	X	X	X	X			
Adel	X	X	X	X			Hunter's Favorite



You should put these same evaluation efforts into any alpaca purchase. Always come back to your why, goals, and business plan. Does the new alpaca have purpose and fit into your plan?

Revenue Goals



Establish Defined & Obtainable Goals

- How much revenue per year?
- How much revenue per month?
- How much revenue by offering?
- How does this compare to last year?
- How does this compare to current market trends?
- Does your current inventory support these goals?
- What exactly are you missing?
- How much will it cost to fill your gaps?

Create Revenue Goals by Month and Year

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	YTD
Alpaca Sales					\$9000		\$9000						\$18000
Breeding Services				\$1500	\$1500	\$1500							\$4500
Product Sales	\$500	\$750	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$1000	\$2000	\$8250
Ag Events					\$1000	\$1000	\$1000	\$1000					\$4000
Total	\$500	\$750	\$500	\$2000	\$12000	\$3000	\$10500	\$1500	\$500	\$500	\$1000	\$2000	\$34750

Exercise #9: Prepare a Revenue Estimate

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	YTD
Alpaca Sales													
Breeding Services													
Product Sales													
Ag Events													
Total													

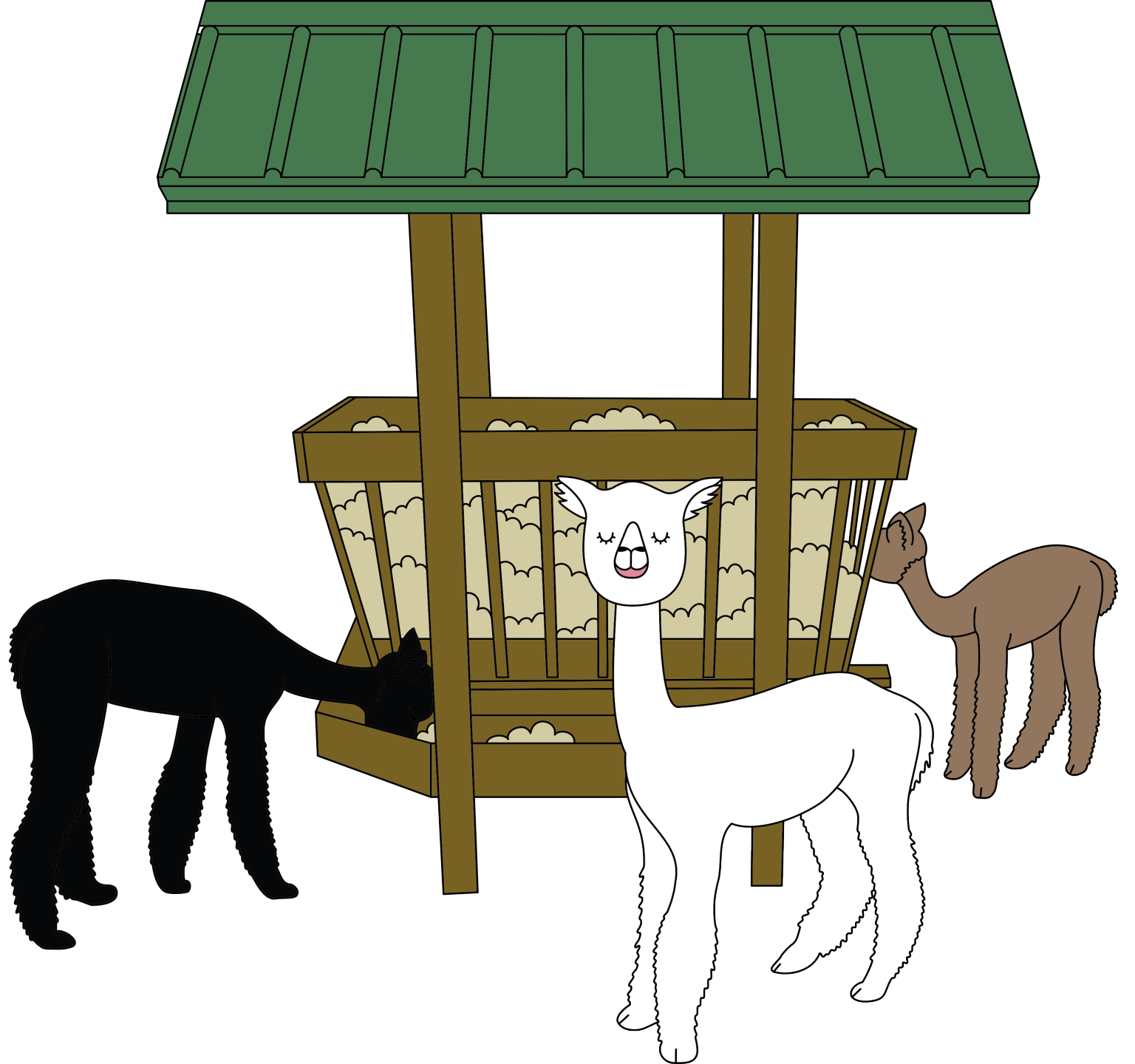


Review and adjust your sales plan throughout the year. Adjust it to current economic shifts, industry changes, or possible shifts in your why.



And, what's even more important, as yourself how are you going to get to your goals. What do you need to do or change to make it happen.

Marketing Activities



Possible Marketing Activities

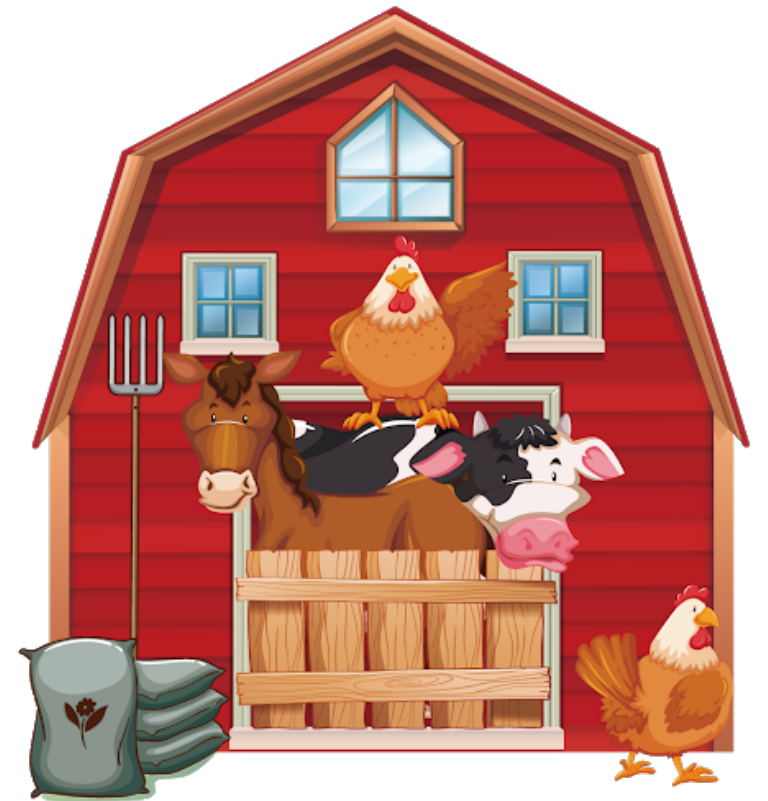
- Alpaca shows
- Word of mouth
- Website and Google search
- Google My Business and Bing Local
- Social media profiles and groups
- Online forums
- 4-H clubs
- Craft shows
- Local events
- Marketplaces (like Etsy)

Very Your Efforts by Your Offering

- Don't expect to market alpacas and socks in the same location.
- Each revenue stream – or even product or service – will be marketed differently.
- Know your buyer deeply.
- Know where they spend their time.
- Know what is important to them in their buying cycle.
- Know what influences their decision process.

Where Do You Serve Your Target Market?

- Your farm
- Alpaca shows
- Craft shows
- Farmers markets
- 4-H fairs
- Schools
- Nursing homes
- Off-site events





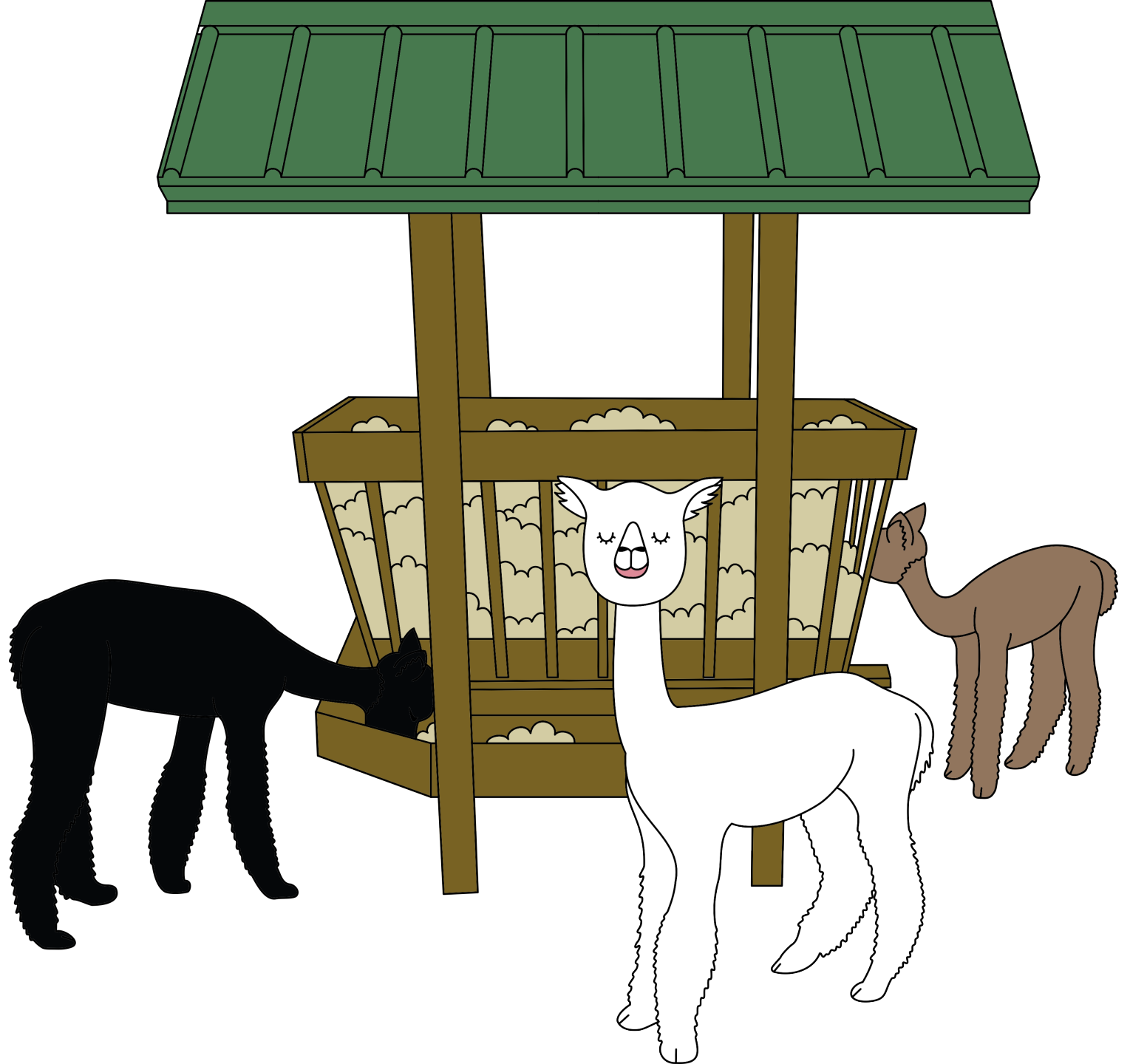
Take a step back...

Who is your target market?
Where do they spend their
time online and in real life?
That is where you should be
marketing your offering.



- Don't rely on OpenHerd.com to market for you! It's not going to happen.
- Your listed alpaca is 1 of 10,000+ alpacas on the website.
- Your alpaca farm page is 1 of 1269 farms. For Google, it is 1 of 49,500+ URLs.
- That is a lot of competition and lot for your future customers (or even Google) to sift through.

Expenses and Operating Costs





Know your expenses and constantly match them up to the stage of your business and your business plan. In other words, create a budget to keep you in check.

Each Business Stage Has Expenses

Start Up Stage

Business registration
Starter herd
Shelter
Fencing
Feed and water buckets
Halters and leads
Medications

Growth Stage

Herd advancement
Breeding fees
Fertilizer, lime, seed
New equipment
Farm labor
Show registrations and travel
AOA alpaca registrations

Maintenance Stage

Hay
Grain
Minerals
Shearing
Vet visits
AOA membership
Fiber analysis

But Wait! There's More Things to Consider

Equipment maintenance	Website development	Yarn processing	Annual reports	Software
Gasoline	Website hosting	Shipping	Accounting	Waste removal
Electricity and gas	Advertising	Products for resale	Insurance	Accrued tax
Mileage	Craft show booths	Credit card fees	Education	The unknown

Create a Budget for the Entire Year

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	YTD
Hay	\$500			\$500					\$1500				\$2500
Grain	\$100		\$100		\$100		\$100		\$100		\$100		\$500
Shearing					\$500								\$500
Vet Visits	\$50		\$50		\$50		\$50		\$50		\$50		\$300
Supplies	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$300
Mill						\$500		\$500					\$1000
AOA					\$200				\$200				\$400
Shows			\$2000							\$2000			\$4000
Total	\$675	\$25	\$2175	\$525	\$875	\$525	\$175	\$525	\$1875	\$2025	\$175	\$25	\$9500

Exercise #10: What Are You Tracking?

1. How many expense buckets are you really tracking?
2. Do you know your estimated expenses per item?
3. Do you know your estimated expenses per month or year?
4. What do you need to do to get your expenses in order?

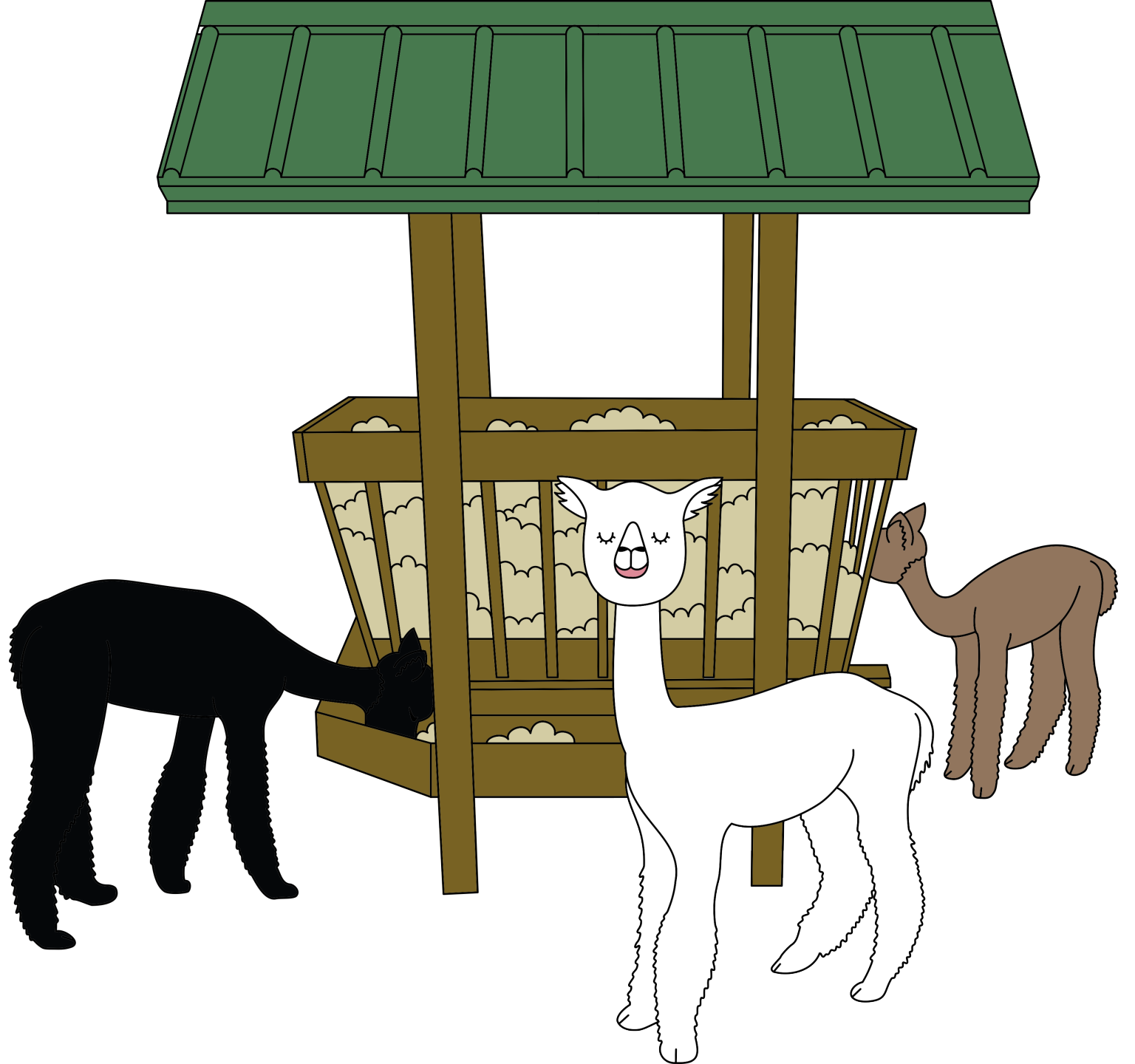
Balance the Budget to Revenue Projections

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	YTD
Revenue	\$500	\$750	\$500	\$2000	\$12000	\$3000	\$10500	\$1500	\$500	\$500	\$1000	\$2000	\$34750
Expenses	\$675	\$25	\$2175	\$525	\$875	\$525	\$175	\$525	\$1875	\$2025	\$175	\$25	\$9500
Profit or Loss	-\$125	\$725	-\$1675	\$1475	\$11125	\$2475	\$10325	\$975	-\$1375	-\$1225	\$875	\$1975	\$25250

Profitability only comes when you carefully measure, monitor, and balance your revenue and expenses.



Milestones



Milestones

- No business plan can be complete without setting some milestones.
- These milestones are major events that must take place to execute your plan.
- These could include financing, barn build and fencing, alpaca herd acquisition, website build, creating a Facebook page, making your first sale, or farm expansion.
- Or if you're anything like us, it equates to the first barn and the second barn, and so on.

Sample Milestones



Exercise #11: What Are Your Milestones?

Use what we've talked about today to set milestones for you and your business.

What do you need to propel yourself forward? What will move the farm from hobby to profitable business?

The diagram consists of two identical horizontal sequences of five empty white rounded rectangles. Each rectangle is connected to the next one by a right-pointing arrow, creating a flow from left to right. This structure is designed for users to write their business milestones in order.



Remember...

Alpaca farming can be profitable, but it will only bring in real net revenue if you have a formal business plan that is a living document.



Time for
Questions