Alpacas in Australia…..
The Commercialisation challenge.

John Bell – AAA Board Member 2009-11

(Industry Development Portfolio)

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EXECUTIVE SUMMARY

At the meeting of Council in November each year a topic for discussion is the planning for the AAA and the industry. Refer http://www.alpaca.asn.au/members/docs/policies/gov-processes.jpg

This discussion paper has been prepared for the Council and key stakeholders in the industry at the cessation of my role as the Director responsible for Industry Development in 2011. It reflects the thoughts developed during my period as the Director and is intended to stimulate debate and action as the Council considers the business planning for 2012-13.

The AAA Constitution (S3 Objects) state that it is the role of the AAA to *"Promote and advance the breeding and husbandry of alpacas as an agricultural industry"*, this implies an active leadership role on behalf of its members.

The need to transition the industry to one of genuine commercial sustainability has been identified in Strategic Plans ever since the AAA was formed - yet in tangible outcomes it is difficult to see what has actually been achieved. The quality of our fleeces is certainly better than it once was, but there would be few, if any, breeders who currently have a financially viable enterprise based on fleece, meat, hides or other alpaca products. Most, if not all, members have predicated their financial projections on the ability to quit their animals to new or other breeders – the breeding up phase of the industry. Indeed many of the current members of the AAA may see their animals simply as providing a pleasurable lifestyle – a hobby where they only have vaguely formed ideas regarding commercial viability. The AAA needs to be able to provide a value proposition to all its members whether they own a handful of animals or have several thousand but, it is suggested, the drive to become a sustainable agricultural enterprise is more likely to be driven by the larger operations or cooperative groups of breeders.

The statistics tell us that AAA membership and animal registrations have now started to fall and (it is suggested by the author) that the industry has now reached a "tipping point" as the number of sales decreases and people exiting the industry increases.

Many breeders have ceased to breed their animals as there is no outlet for the animals being produced and their farms have become overstocked. This overstocking may cause stress to the owners who become increasingly desperate to sell or quit the industry. Without a viable outlet for their animals, what was a pleasure to members may actually then become a burden with a corresponding lack of industry vibrancy. This trend will inevitably impact on the shows as entries decline and it becomes more challenging to run cost neutral events. The loss of revenue to the Association will also become increasingly problematic.

Every risk brings opportunities and although the commercialisation challenge may appear daunting at this time it is also an opportunity to drive Australian Alpaca farming to world leading standards and to create a further, sustainable, economic activity for our agricultural sector…if we grasp the challenge. We may not have the depth of human population of other emerging alpaca countries yet we do have a depth of knowledge in commercial animal farming and this offers commercial opportunities to the Association and its members- if that knowledge is harnessed and applied.

The AAA has a very strong asset base which it has developed over the years so it does have the financial room to change its business model and to provide financial support for transitional activities.

This paper does not provide any magical, overnight fix, rather it suggests a 10 year commitment to position the industry so that;

- There is a genuine development of a sustainable deep market for large volumes of animals in a commercial farming environment

- That the AAA transitions to a business model that does not need to rely on membership fees and animal registrations.

This paper suggests some key strategies:

- Professional Research and applied extension focused on achieving the commercial viability of the industry to be carried out by others with involvement of the AAA
- Accelerated Genetic improvement adopted by all of its members (more fleece/better quality)
- Continuation of the grower "cluster" concept and competitive tension for selling alpaca products.
- Branding and quality assurance mechanisms that will provide an "end of line" revenue stream to the AAA irrespective of whether animals are actually registered or the owners are members of the AAA.
- Implementation of a meat and hides revenue stream and an outlet for surplus animals.

Attachment 1 provides a summary of the suggested philosophical position (Policy) of the Board, the strategies required and the management deliverables required in the coming financial year.

1. PERSONAL VIEWS

The views expressed in this document represent the personal views of the author and are in no way intended to represent the view of the AAA. They are NOT CONFIDENTIAL and may be further circulated between members.

The paper has been produced voluntarily to provoke discussion between the AAA, its members and those organisations that might be able to support the Australian Alpaca industry in its future development.

2. BACKGROUND

Alpacas have been farmed in Australia for some 20 years and the market has been characterised as being in the stud / breeding up phase with animals being sold to new entrants to the industry and existing members wishing to improve their genetics.

The Risk review and AAA planning developed in 2010-11 again identified the need to move to commercial alpaca farming and this discussion paper has been produced to provide some thoughts on possible strategies to manage the transition. The underlying concern has always been to ensure alpaca farming does not follow the boom/bust of deer and emus etc and while that may seem unlikely to some, it remains a possibility if no action is taken. The risk likelihood of industry failure is seen as increasing.

Few would deny that the breeding up phase of has now slowed substantially and that for the industry to move to a commercial phase based on fleece, meat and hides will be challenging, both an organisational and a member perspective.

At this time it would be difficult to see how current financial returns would be sufficient to entice serious farmers to commercially farm alpacas - as opposed to sheep or goats or any other agricultural pursuit. This is despite Australian alpaca genetics being seen as some of the best in the world. There is a healthy demand for high quality alpaca fibre and there is a growing trend for *end to end* Australian Alpaca products.

The AAA itself has largely been directed by well-meaning volunteers with various skill sets, varying degrees of time availability, of finite length of involvement and the organisational culture may not yet have adapted to our changing industry dynamics. This paper is, in no way, intended as a criticism of previous Boards or the Administration, however what it is suggesting is that the because the dynamics of the industry are changing we now need urgently to adjust the role of the organisation to reflect the current environment.

3. RISKS & OPPORTUNITIES

The following risks and opportunities have been identified which relate to the journey to industry commercialisation. The likelihood and the consequence of these risks will need to be entered onto the Risk register and debated by Council.

3.1. Perceived Key Risks

There are various risks which may prevent the transition of the industry to become a viable farming enterprise.

3.1.1. Lack of Leadership from the AAA

Lack of commitment from the AAA to lead the industry transition to commercialisation may lead to the demise of alpaca breeding in Australia. The consequences are a reducing revenue stream which may lead to the demise of the AAA itself.

3.1.2. Loss of members

The cost of maintaining alpacas with little hope of being able to obtain any financial return may lead to; despondency, breeders quitting the industry with fire sales, and an associated erosion of confidence for other members.

3.1.3. Lack of member appetite for change

Many medium or smaller breeders might consider that a move to commercial breeding would only impact large scale enterprises. Yet the inability of smaller breeders to quit their unwanted animals into more a more economic (broad acre) environment risks a cessation of breeding by many of our current members. Members who may currently be constrained by available land area, costs of maintenance or perhaps who simply wish to *sell up* and exit the industry.

3.1.4. Inadequate financial resources allocated to achieving change

The transition to commercial farming will require a commitment from the Board /Council to fund its strategies. The consequence of inadequate funding may be that the industry is unable to transition to a truly viable commercial enterprise. Board and Council commitment to the resources required for transition will largely determine the success of any strategies which are agreed upon.

3.2. Perceived Key Opportunities

3.2.1. Creating another main-stream farming opportunity in Australia.

Creating a commercially viable, main stream farming activity will exponentially increase the demand for more alpacas, albeit at prices that are more related to their commercial productivity.

3.2.2. Create a world demand for farmed alpaca meat

There are no significant producers of alpaca meat and Australia has the opportunity to create a demand for specialised alpaca meat products.

3.2.3. Technical knowledge & intellectual property

Focused research and statistically superior animals will increase the attractiveness of Australian genetics to other countries.

3.2.4. Increasing the ability to quit unwanted animals

A demand for large numbers of alpacas will encourage all breeders to keep breeding and increasing production and quality. The animal *churn* that is essential for breeder confidence and which will, in turn, encourage growers to continue to breed and show their animals.

4. FOCUS & THE ROLE OF R&D

Australia has world leading knowledge and technology in respect of animal farming (sheep etc) and the knowledge is available in Australia to accelerate the commerciality of alpaca farming - if the AAA decides how it will best harness and apply that knowledge.

4.1. AAA Approach to R&D

Australia has highly developed expertise in sheep farming technology and the main thrust of this document is to explore how the membership of the AAA can access and utilise this expertise to enable the alpaca industry to become truly commercial.

It is suggested that without an acceptance of the necessity of a meat market, without a decrease in farming input costs and without significant increases to the quality and volume of fibre production the industry may never achieve true commerciality.

The AAA has financially supported Research and Development for many years and has accessed some Federal Government funding though R.I.R.D.C. which has effectively multiplied the cost contribution from the AAA and they have played a useful role in filtering research projects which have been supported by the AAA.

However, without intending to be unduly negative, when we review all the research carried out it is difficult to see what practical effect the majority of the research has had upon the members of the AAA or how it has assisted us with a move to industry commercialisation. No doubt it has produced technically interesting research but, it is suggested, the combination of the research topics and the lack of extension services has had minimal impact on the average AAA member. Perhaps now is an appropriate time to review how the AAA approaches R&D and how we might achieve more tangible results for our members in order to achieve commercial viability of their operations. R&D is seen as the foundation in our move to commercial viability.

The AAA itself has neither the financial, human resource capability nor culture to manage, coordinate and implement technological changes, nor does it have the expertise to harness other sources of research / extension funding. It is simply not the core capability of the AAA and a better, more practical way of leveraging our position as the pre-eminent Alpaca association in Australia may be required.

4.2. University R&D

Currently there is no one University in the world that focuses on alpacas, rather there are various researchers and various areas of specialisation but no academic process of collation and overall analysis with a commercial focus on the outcomes of the research.

University R&D departments are generally seen as the promoters / marketers of the University, one of their core objectives is to enhance the reputation of the University in order to attract fee paying students – the Universities generate the majority of its income from teaching. The performance indicators of R&D generally feature the number of research papers published in credible journals and while they try to ensure that they operate in a financially responsible manner that is not generally their primary performance indicator. They attract international students which reinforce the reputation of those Universities on an international basis.

4.3. A University Alpaca research hub

If it is accepted that the AAA is not adequately equipped to best manage R&D then it might seem preferable to encourage and assist a University who might be prepared to form an Alpaca Research hub. The Research Hub would not be responsible for carrying out all alpaca research but rather it would interact with other Universities and researchers world-wide to form a central body of alpaca knowledge, utilising the area of speciality of others -e.g. nutrition, reproduction, textiles etc.. The relationship between the Alpaca Research hub and other participating Universities, Departments or individual researchers would be the primary responsibility of the University research hub itself.

From a AAA perspective the primary focus of the hub would be research and extension to establish a commercially viable alpaca industry in Australia.

If the AAA could obtain a position of influence in that Research hub then they will be able to steer the research and extension to those areas that have the most influence on commercial outcomes for our member. Possibly by the appointment of a AAA representative on steering committee of the Alpaca Research hub. Other members of the steering committee might be representatives of other stakeholder groups (Meat / fibre technology etc). The role could essentially be one of guidance, support and implementation rather than one of “control”.

Some exploratory conversations have been carried out with Curtin University in Western Australia to establish what may be a practical approach and to gauge appetite to establish such a research hub, at this time they appear to have some appetite to develop such an alpaca research hub.

The primary assets of the AAA are our name and position as the peak body for alpaca breeders in Australia and as such there is a case to be made for our inclusion in such a hub. Our association with such a hub may be useful increasing our international exposure and in reinforcing our international reputation.

5. FUNDING OF R&D

5.1. AAA funding sources today

AAA revenue has primarily been derived from membership fees and charges and from animal registrations and the funding of Research and Development has traditionally been sourced from consolidated revenue. It is an item for discussion at every budget setting exercise and there is the risk that with the decreasing revenue streams that this may, at some stage, be slashed. This may lead to a situation whereby the potential to transition the industry to commercial farming is sacrificed because of short term requirements to balance an annual budget.

5.2. Future Revenue streams to the AAA

With the traditional revenue streams starting to decline and it is suggested that a firm plan needs to be established to transition to *end of line* revenue streams rather than placing reliance on income streams which may continue to decrease. There is already a resistance to the high level of fees and charges relative to the services provided. The current market value of Australian alpacas is likely to increase that resistance from members and this is likely to lead to a further decline in revenue.

The Board has previously discussed the need to move to a revenue based on license fees by implementing branding royalties (products, fibre, meat & hides etc) as this would capture both members and non-members as well as animals, registered or not and this approach may also offer an opportunity to access other funding sources to support R&D. Branding is currently being established and it would seem appropriate that Council discuss and sign off on the change of revenue strategy. Such a change in strategy may also assist in the ongoing funding streams required for Animal emergency response and Research and Development.

5.3. University Funding of R&D

While the AAA may have somewhat limited opportunities for attracting R&D funding, Universities have both a greater appetite, credibility and a stronger network to enable them to attract funds for their research. Whether they source funds from mining companies working in South America, philanthropic institutions, Federal and State Governments, they are hungry and very focused on sourcing research funding.

By lending our name to a University research hub we are likely to increase their ability to source research funds and we will be able to influence how those research funds are used.

This discussion paper suggests that the AAA forms a supportive relationship with a University that has the appetite and commitment to form an alpaca research hub. See Attachment 1.

6. MEAT & HIDES

Without a market for meat and hides it is difficult to see how there would be a genuine business case for alpaca farming. Even if we manage to increase fibre yields and reduce our input costs without a foundational value for the animals in the meat / hides market we may never be able to establish commercial farming.

6.1. Alpaca Meat Branding & QA

Because of the desire from many breeders to reduce their herd sizes and get rid of their older animals, there is now an increasing interest in the markets for alpaca meat market, a situation that would have been unthinkable 2 or 3 years ago.

Some early adaptors have carried out exploratory work in developing an alpaca meat market with little or no involvement from AAA. Each is using their own brand names and are focused on providing a quality product.

It is suggested that:

- The AAA establishes a registered brand for alpaca meat that meets certain quality standards which ensure that quality is maintained.
- That a small royalty is attached to the use of the brand, the proceeds of which support the further development of the market for alpaca meat
- That the AAA supports breeders (groups of breeders) in each of the Regions to initiate a meat market. While the AAA may be able to provide standards and training the implementation should be by members or member cooperatives who establish markets in

each regional area. Having an alpaca meat market in Victoria is not useful to members in Western Australia.

6.2. Risks

In the move to develop a more widespread market for alpaca meat, some of the key Risks are seen as;

6.2.1. Membership conflict

Many of the current membership became alpaca breeders for the lifestyle and are not generally professional farmers. They may find the thought of alpaca meat abhorrent. Larger breeders and genuine farmers who may be more commercial in their approach will see the commercial imperative. While ultimately the choice should lie with the individual breeder there is a risk to the Association for friction between the *hobby* and the *commercial* interests and this will have to be managed sensitively.

6.2.2. Poor eating experience of alpaca meat

Potential future major (international) markets could be destroyed from the outset by the provision of poor quality “alpaca meat”. Selling tough, old alpaca as a premium alpaca meat will simply destroy the initiative at this embryonic stage.

Branding, quality assurance and training will need to be established at a very early stage.

6.2.3. Unable to meet demand

Ensuring a consistency of supply and supply chain management will require firm commitments from growers or cooperative groups of growers to provide the agreed numbers of prime animals when they are required. The marketing of the meat is not seen as the major constraint; rather it is the ability to provide an agreed number of quality carcasses to buyers.

6.3. Opportunities

Some of the key opportunities are seen to be;

6.3.1. Demand for Australian alpaca meat

There are no commercial suppliers of alpaca meat in the international market place and if the branding, quality assurance and marketing initiatives are established it could provide a niche market and a foundational price for Australian alpaca farming, enabling growers to keep breeding and growing the national herd. It would substantially boost grower’s confidence to keep breeding.

6.3.2. Commercial returns to AAA

The establishment of a registered AAA brand name for prime alpaca meat (*Alpena* or w.h.y.) could lead to revenue streams to replace the falling membership / registrations income stream. It could differentiate AAA Quality Assured meat from tough old alpacas sold by others.

6.3.3. Hides

If slaughtered at the appropriate time, with say 50 mm of fleece in place a market might be developed for alpaca hides / rugs as an exclusive product. Current retail prices of $900 for hides (with fleece) being sold to Asian tourists are clearly not sustainable however there will remain a market for more realistically priced hides which will add to the value of the carcass.

6.3.4. Breeding Standards

While not a specific opportunity a focus on meat will lead to a breeding direction of larger framed, faster maturing animals and may impact on breed standards.

7. FIBRE

While Meat and Hides should provide the ultimate foundational value of our animals, the fibre is seen as the immediate key to our success, yet on its own it is unlikely to provide a sustainable farming enterprise.

7.1. The changing market for Australian Alpaca fibre

The market for our fleece has improved significantly in the past 12 months for those growers prepared to work in clusters or otherwise cooperate to produce volumes of classed fleece. The previous business model of sending fleece away to be classed by others and frequently then having much of it classed as having *No Commercial Value* (NCV) is changing. There are now options available for sales by private treaty or by public auction. Obviously some breeders may choose to continue to send away small volumes of fleece to be sorted by others but the cluster model utilising self-classing and competitive tension from buyers appears to be effective in improving returns for those who are prepared to make the effort.

There is no shortage of demand for commercial volumes of quality white or light fawn huacaya fleece. The markets for coloured fibre and Suri fibre is not yet as far advanced, however it is hoped that with the further development of the Auction system further buyers for these fleeces might be identified. The Auction system also has the possibility of identifying markets for other parts of the fleece which are currently thrown away as having no commercial value, but providing bale volume will be fundamental in obtaining good returns to growers,

The certification of alpaca fibre classers is an important milestone in the process of producing bales of consistent Australian alpaca fibre.

7.2. Viable fleece returns

The average input costs across the industry are seen as excessive relative to the financial returns received for the fleece. Superficially for the first and second fleeces some growers might be able to argue that they can make money, but they would probably be in the minority and a careful analysis of the numbers might test their claims. The prime challenges are seen as;

- To reduce the input costs (feed, shearing etc)
- To increase the volume and quality of fibre produced (genetic improvement)
- To select those animals that can maintain commercial volumes and quality of fleece over a longer period of time (genetic improvement).

The University research hub is seen to be important to focus in progressing all of these aspects..

7.3. Genetic Improvement (AGE)

The ability to produce large volumes of high quality fibre over a long period of years is fundamental to our economic modelling. Statistical measurement of the breeding values of our herds is seen as a pre-requisite to progress. The challenge is to clearly articulate what we wish to see in respect of fibre characteristics as a long term goal and then focus the genetic improvements on those targets. With clear, long term genetic goals articulated and based on Estimated Breeding Value then it might be possible to improve by an average of 3% per year over a 10 year programme.

The AGE project was established with this genetic improvement in mind. It was co-funded by RIRDC and is seen as crucial in supporting genetic improvement. However this program has only been adopted by a very small number of our members and currently around 1.5% of our members utilise this program and this appears to be falling yet further.

There are only 27 breeders participating in AGE in 2011 versus 61 in 2008 and only 628 animals participating in 2011 compared with 1569 in 2008.

It is suggested that a review be carried out of this program to facilitate a greater utilisation by our members.

All data on fleece results of the national herd is held by a very small number of fleece testers and there appears to be no reason why that aggregated data could not be made available in an "on line" environment that would allow breeders to map their own fibre results against the national herd. Such an approach might allow a breeder to see how (say) their seven year old white Suri male compares against the rest of the other seven year old white Suri males on the national herd. Privacy mechanisms would need to be in place to prevent other breeders accessing each other's individual results. Having spoken to the Micron Man in Perth there does not appear to be any major technical obstacle to moving in that direction - if there was an appetite from the industry. The approach might remove some of the frustrations, delays and costs involved in the current AGE system.

Irrespective of the final approach agreed upon, AAA might need to facilitate a greater take up of genetic improvement programmes if we are to move to a commercialisation of the industry.

This report suggests that a review of the AGE programme needs to be carried out and that 10 year fibre objectives are developed.

8. EXTENSION

The application of Research findings to large number of smaller breeders, some with only marginal interest in commerciality is likely to be challenging.

The move to industry commerciality will probably be driven by larger farms (or cooperatives of breeders) who are motivated to apply research findings for very commercial reasons. Without discriminating against enthusiastic smaller breeders there may need to focus practical improvement efforts on the larger farms that may then provide a regional focus to other breeders.

Some of the research institutions that might be associated with the Alpaca Research hub may also choose to run research herds of their own.

The role of research application (extension) to AAA members will be pivotal in the journey to commercialisation. While that is not a topic that requires immediate attention the role of the AAA in training and extension will need to be considered in the future, together with the support which may be available through the various State Departments of Agriculture.

9. OTHER

There may well be other interim sources of revenue which contribute to short term commercial viability (flock guards etc.) but these are seen as being relatively inelastic or of minor commercial significance in the longer term. The main thrust of the journey to commerciality is seen as fibre, meat and hides production.

Attachment 1

Policy, Strategies and 2012-13 Management deliverables (Draft)

INDUSTRY COMMERCIALISATION POLICY

Draft: October 2011

POLICY:

The AAA will provide leadership and appropriate resources to ensure that Alpaca breeding in Australia becomes a mainstream, sustainable, commercial farming enterprise.

BOARD / COUNCIL STRATEGIES	
1	Encourage an Australian University to form a specialised Alpaca Research Hub with the AAA participation as a key stakeholder on the steering committee
2	2.1.Develop a unique, registered name for Australian alpaca meat that may be licensed to commercial users who adhere to the approved quality standards and licensing arrangements 2.2.Encourage the establishment of meat industries in each of the regions
3	Develop the use of a licensed AAA branding strategy with supporting levy to fund R&D or other agreed activities. Branding of fibre and fibre products
4	4.1. Establish a 10 year breeding goal for our fibre 4.2. Establish an online comparative tool for genetic improvement based on EBVs and utilising data held by participating fleece testers.

MANAGEMENT DELIVERABLES 2012-13			
		By	Date required
1	A signed agreement between the AAA and an Australian Alpaca Research hub	SM*	
2.1	Registration of a unique name for Australian Alpaca meat produced under license from the AAA	SM	
2.2	Each region to have at least one commercial meat enterprise established	Regional Presidents	
3.	Brand to be finalised and standard license agreement drawn up for use on bales and fibre product. Signed agreement with the Commonwealth for the collection of levies.	SM SM	
4.1	A written 10 year target for EBVs	SM	
4.2.	Delivery of an on line (virtual) comparative tool based on the AGE sytem	SM	

*Assisted by Committees or Working Parties

RESPONSIBILITIES:
The AAA Secretary Manager is responsible for the implementation of this Policy and these strategies and will provide reports on progress against these strategies at least every two months.

Signed:
Chairman Australian Alpaca Association Limited　　　　Date: