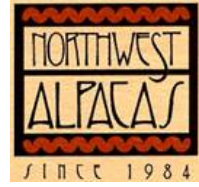




The Alpaca Business Planner

By Mike Safley



The Business Planner by Mike Safley

First and foremost, I think prospective alpaca breeders should realize that alpacas are a business, not an investment. Investments have traditionally been thought of as financial stocks, bonds, gold, silver, and real estate. All of these things can be owned passively, and when need be, you can sell them by calling your broker and asking him to liquidate the asset on your behalf.

Alpacas are a business opportunity. They need to be fed, cleaned up after, shorn, housed, and marketed before you can profit from them. And, you need to pay the bills before you can determine your profit. While I may be stating the obvious, this is an important concept to understand. There is no better tool to help make this clear than a business plan.

We have created this business planning tool to help you through all of the decisions that a prudent person would make prior to committing their hard-earned capital to start an alpaca business. First, it is important to choose your alpaca marketing niche and decide how much money that you would like to make. You will also need to make decisions about whether you are going to treat alpacas as a business or hobby, what business entity to use, the tax consequences of your investment, the initial start-up costs, ongoing expenses, and decisions about whether to pay cash or to buy your alpacas on terms.

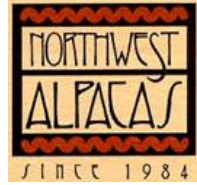
If you would like input on all of these decisions, we recommend that you attend our seminar, "[How to Buy Breed, and Succeed in the Alpaca Business.](#)" Once you have made these decisions, we have created the business planning calculator to assist you in creating a financial plan. You can fill out the forms that accompany this article ([click here](#)), and submit them to my associate, Fred Kraft. He will work with you to produce your personal version of the 10-year plan that you will find later in this text.

CHOOSE YOUR ALPACA MARKET NICHE

Alpacas came in two kinds, 85 colors, many quality levels, young, old, and are priced from inexpensive to expensive. There is a perfect alpaca for everyone no matter what their preference. This is both a delight and a dilemma.

One of the most critical decisions an aspiring alpaca breeder can make is what kind of alpacas to raise. The first choice that needs to be made is, will you breed suris, huacayas, or both? If you breed both, you must realize that eventually you will need twice as many herdsires. It also means that you will probably have a larger herd.

To understand the differences between suris and huacayas you may want to read, [The Ideal Alpaca: Suri and Huacaya.](#) Both breeds tend to cost, on average, about the same price. The main difference is the type of fleece they display. In any case choosing which breed to buy is often a threshold decision. I recommend you buy what stirs your emotions.



The Business Planner by Mike Safley

Beyond the breed you decide on, you should consider what colors you want to breed, whether you want to breed show stock, pets, or production females. All these categories have a price point

The lower the average price of your alpacas, the larger the market will be. As my dad used to say, “God made more poor people than he did rich ones.” The key issue to consider on price is your ability to sell the females cria that you produce for the same price that you paid for the mother.

If you follow the selection advice and genetic improvement suggestions found in my book, [Alpacas: Synthesis of a Miracle](#), you can easily learn how to produce superior stock for whichever market niche you choose. I also recommend you consider joining the online alpaca community www.IdealAlpaca.com.

In any case, you should think carefully about what type and price of alpaca you want to raise because this decision will impact your budget and your marketing approach. These decisions are every bit as important as how many alpacas to buy and what barn to build.

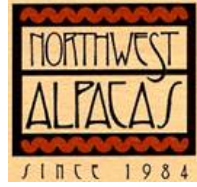
HOW MUCH ANNUAL INCOME DO YOU DESIRE FROM YOUR ALPACA BUSINESS

Net income is the key number you need to determine before you do your plan. For instance, if you want to make a net of approximately \$35,000 a year, you will need to sell approximately four females.

We suggest you figure that 40% of your babies will be female. This is conservative, but it is better to error on the downside; it helps make your estimates solid. An average annual expense budget might be \$11,165, (see below), so to make \$35,000 net, you will need to sell at least four females at an average price of \$12,000, or three for \$15,000 each. We do not suggest projecting money from breeding male sales. Again, I am being conservative.

There are many other sources of additional income, which I have listed below. But the idea is to determine how much income you desire, and work backwards to the number of producing females it will take to create the product necessary to hit your target.

1. Agistment fees – these usually range from \$2 to \$3 per animal per day.
2. Stud fees – these will average approximately \$2,000 per service.
3. Transport – this obviously depends on the distance, but short hauls start at \$100, and cross-country will run about \$300.
4. Brokering – these arrangements vary, but 10% is a common commission.



The Business Planner by Mike Safley

5. Sale of gelding – these animals sell for between \$500 and \$2,000. They sell for more if they are trained.
6. Training – this costs about \$75 to \$100 per animal.

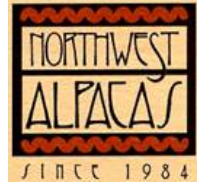
These items of additional potential income may be right for some people and not for others. Be conservative. Do not, for instance, think you will get agistment or stud service money in the first two years of business. The idea is to put together a plan that gives you a clear cash flow target.

HOBBY OR BUSINESS

The IRS takes into consideration several items when determining whether your alpaca farm is a business or a hobby. This is extremely important because if you are operating as a business you can write off your expenses including depreciation expenses each year against your ordinary income. If alpacas are simply a hobby, you must capitalize your expenses and not deduct them until you have a sale. For a thorough discussion of this subject, please see [“Why Not Have Uncle Sam Help You Buy Your Alpacas.”](#)

The following is a list of several items that the IRS looks at to determine if your business is truly a business or simply a hobby.

1. Are you carrying on the business in a business-like manner? Think record keeping and maintaining an independent business identity.
2. The time and effort personally spent in the activity indicates that you intend to make a profit. The IRS would like to see you spend several hundred hours a year on the business. This would include the collective effort of partners and husband and wives. You need to decide what form of business entity you need for your new alpaca business.
3. Do you expect to make a profit from the appreciation of the property that your ranch is situated on? More importantly, will you make a profit on your alpacas?
4. Do you and your advisors have the knowledge and expertise to carry on a successful alpaca business? Do you have a history of success in this type of business? You obviously do not need to have been a farmer but skills in marketing, accounting, and science are always helpful. Maybe your experience is in dog or cat breeding.
5. Losses are normally allowed during the first few years, but your intent must be to profit within a reasonable period of time.



The Business Planner by Mike Safley

6. An occasional profit from your alpacas which otherwise generate losses is not determinable of a profit intent. However, any profit is good indication of a profit motive.
7. Do you depend on this business to make a living? This obviously shows that the business has a profit motive.
8. Do you keep good records, have a separate bank account and business identity, advertise, have alpacas for sale, and attend events? These are all indications that you are conducting a business.
9. Have you prepared a thorough business plan!

There are also safe harbor rules that insure that your operation will be considered a business. If you make a profit in three of five years, you will be treated as a business. But these rules are only guidelines. For instance, if you are raising breeding stock, you may be allowed more time to be profitable.

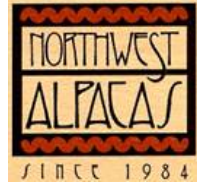
Another issue to consider is whether you maintain the animals at your farm, or board them. If you board, then you must make all the critical decisions about their care and breeding if you want to depreciate the animals as breeding stock.

One of the most important issues when considering the above list is record keeping. If you do not keep good records, separate bank accounts, and business identity, you run the risk of being considered a hobby farm.

OWNERSHIP ENTITIES AND RECORD KEEPING

If you are partners with someone, you will need a partnership agreement. Husband and wife may choose to be a sole proprietorship. For some people a corporation works and others use a limited liability company. Each entity is described below. Record keeping is essential. Keep your alpaca accounting records separate from your personal business. QuickBooks works well. You can keep your alpaca herd records on a program like Lama Logic. This program is available at www.lamallogic.com.

1. Partnership – is a relationship between two or more people who join together to carry on the business of their ranch. Each person contributes money, capital, or labor, and in return shares in the profits and losses of the business. The income and expenses of the partnership are reported to the IRS on a Form 1065. Each partner receives a K-1 from the partnership of the amounts that they have to report on their own individual tax returns.



The Business Planner by Mike Safley

2. Sole Proprietorship – this is the easiest and simplest way in which to file your ranch tax return. You will be filing a schedule F, along with all the ordinary and necessary forms that you file with your 1040 Income Tax Return. The profit or loss of your ranch is reported along with all your other income and expenses for a net taxable income.
3. Corporation – is an entity that is formed by a transfer of money or property or both for capital stock in the corporation. The corporation is then run as an entity of and by itself and must report its income and losses on Form 1120. The corporation pays taxes at the corporate level and nothing flows back to the shareholders individual tax returns. It normally takes a lawyer to form a corporation.
4. S Corporation – is basically run like a corporation but elects to have its income and losses taxed to the shareholders like that of a partnership. The S-corporation would file form 1120S, and the shareholders would each receive a K-1 for their share of the income and losses.
5. Limited Liability Company (LLC) – is a hybrid entity with some of the characteristics of a partnership and some of a corporation. It has the choice to report its income and expenses like a partnership on Form 1065, or like a corporation on Form 1120. Under this form of doing business, none of the members of the LLC are personally liable for the LLC's debts.

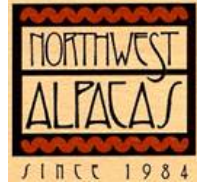
TAX CONSEQUENCES

As you can see from the 10 year projection continued in this article there are some great tax deductions associated with alpacas. These are all discussed in detail in the article I previously mentioned, [Why Not Have Uncle Sam Help You Buy Your Alpacas](#). Fred Kraft would be happy to assist you in making an [After Tax Cost Analysis](#). Just email him at Fred@alpacas.com.

INITIAL START UP COSTS

Many breeders start investing in alpacas by purchasing several females and paying for outside breeding services. Many wait to purchase a quality breeding male. Alpaca prices can vary substantially depending on color, conformation, fleece quality, fleece quantity, age, and gender. The expense budget found below is for a small to medium sized farm farm.

If a person were to begin raising alpacas, they need to consider three financial components in their business plan. They need to determine the gross income necessary to fund their plan, which we discussed above. Next they need to do an initial capital budget, which I discuss next, and finally they need to determine the amount of annual operating expenses they will incur, which is also discussed below.



The Business Planner by Mike Safley

CAPITAL ASSETS

A small barn or shelter on 3 to 5 acres, built specially to house 15 to 20 alpacas, might cost about \$10,000 to \$15,000 if you contract for its construction. Fencing could add several thousand dollars to your budget. If you manage the herd yourself, you'll require an inventory of halters, shears, toenail clippers, lead ropes, and other miscellaneous gear. These items would probably add \$500 to your initial costs. Insurance is a consideration, and a year's supply of hay grain is required. The alpacas are obviously the most expensive component. You may decide to purchase more or less, based on your personal circumstance. The six suggested here are used in our 10 year cash flow plan found later in this article.

1. Six Pregnant Female Alpacas	\$100,000.00
2. Barns and Fences	15,000.00
3. Initial Marketing Cost	4,800.00 ¹
4. Miscellaneous Equipment	5,000.00
5. Capital Reserve	<u>1,500.00</u>
Total	\$126,300.00

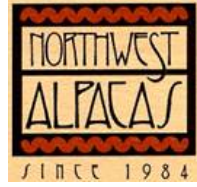
Purchasing alpacas on terms allows you to get started with less cash up front. At Northwest Alpacas we will extend financing for up to four (4) years. We offer 8% interest and monthly payments. We treat financing for one year or less as cash, and charge no interest. Within these two extremes we are flexible. You can work out your own purchase terms on our [Make an Offer](#) feature in the [alpacas for sale](#) portion of this site. There is also a more extensive discussion of the terms available and package pricing in the [Make an Offer](#) section.

The following list of capital items should be reviewed during your planning process. Some you will need, and some you will not. Normally, a capital expenditure is a payment for the purchase of large dollar items, which have a useful life of more than one year. These items are not deductible as an expense in the year of purchase, but are depreciated over the useful life of the item. A portion of the item will be deducted each year. The following capital budget would be typical for starting a small profitable operation and is consistent with the expense budget which we discussed earlier.

Again, Fred can help you with estimates for these items as you create your business plan (Fred@alpacas.com). The following budget is one used in our 10 year projection.

- Breeding stock – all breeding stock, regardless of age, must be capitalized and depreciated over their useful lives.
- Diverting channels or streams – the cost of diverting existing streams or channels is a capital expenditure.

¹ See, [How to Create The Ideal Alpaca Marketing Plan](#), page 10.



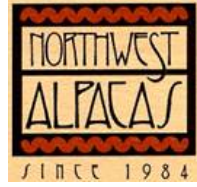
The Business Planner by Mike Safley

- Equipment and machinery – includes tractors, ground equipment, mowers, harrows, generators, portable water tanks and more.
- Fences – all fences, whether they are wood or pipe corrals, chain link perimeter fencing, or electric fencing or any other type, they must all be capitalized.
- Improvements – all major repairs or alterations to your barns will be capitalized. This includes new roofs, barn add-ons, etc.
- Irrigation ditches – the construction of ditches to water your fields for grazing or other uses must be capitalized. The laying of irrigation pipes are also to be capitalized.
- Land and buildings – this includes barns, corrals, outbuildings, as well as all land.
- Land clearing and leveling – the initial clearing and leveling of ranch property for placement of barns, arenas, etc., must be capitalized.
- Major repairs – any major repair to cars, trucks, equipment or machinery, that substantially increases the life of the item, must be capitalized.
- Purchase and planting of trees – the cost of all plants and the labor to plant them are a capital item.
- Roads – the building and construction of roads on your ranch property or up to your ranch property is a capital expenditure.
- Tanks, reservoirs or dams – the construction of water holding areas are a capital expenditure.
- Water well – the drilling and equipping of your wells for water on your ranch must be capitalized.

EXPENSES

We have estimated the average annual expenses for typical breeders in the 10 year projection you find here. We will also help you craft your personalized expense budget after you fill in the questionnaire, which you can link to by clicking here: [The Alpaca Business Planner](#). The following budget would be considered typical for a small operation.

Hay and Feed for six Alpacas	\$ 750.00
1. Insurance 3¼%	3,250.00



The Business Planner by Mike Safley

2. Marketing	4,615.00 ²
3. Veterinarian Fees	1,000.00
4. Gas, Fuel, Water, Electricity	500.00
5. Fertilizer	200.00
6. Accounting	250.00
7. Vet Supplies	100.00
8. Miscellaneous Reserve	<u>500.00</u>

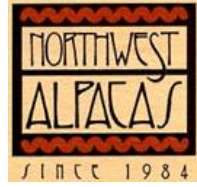
Total: \$11,165.00

The marketing component of this budget may not be necessary if you are in the herd building process. We do, however, encourage people to begin thinking about marketing as soon as they enter the business.

Fred and I have years of experience at paying the bills for profitable alpaca businesses -- our own. Feel free to make us one of your resources to help work out your personal budget. Below you will find a list of potential expenses that you should consider. All are tax deductible.

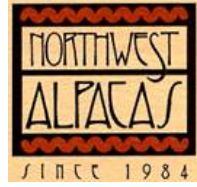
- Accounting fees – if you have a bookkeeper that does your books for you, then those costs are deductible.
- Advertising – any advertising incurred for the promotion of your ranch or the sale of any alpacas can be deducted. This includes newspapers, magazines, television, marketing co-op fees, auctions, etc.
- Alpaca feed – alfalfa, bulk feed or grain, supplements or any item that your alpaca would normally eat is deductible. On average, you will need one ton of hay for every three alpacas.
- Alpaca magazines and books – subscriptions to alpaca and alpaca related magazines that help you advance your business are deductible. Also, instructional books and manuals are deductible. For instance, if you buy my book, [Alpacas: Synthesis of a Miracle](#), the cost is deductible.
- Alpacas purchased for resale -- the cost of purchasing alpacas for resale is deductible in the year that the alpaca is resold. Included with the actual cost of the alpaca is the cost of transporting the alpaca to your ranch.
- Alpaca show fees – amounts paid as entry fees for alpaca shows are deductible if you are in the business of breeding, training and showing alpacas.

² See, [How to Create The Ideal Alpaca Marketing Plan](#), page 12.



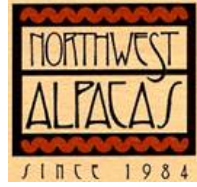
The Business Planner by Mike Safley

- Automobile lease – payments are deductible but one must also figure the lease inclusion amount to be picked up as income. If you lease an auto then you must use the actual expenses and not the mileage rate in figuring your deduction.
- Bank service charges – those charges that the bank imposes on your checking accounts are deductible.
- Barn supplies – all small supplies (vet wrap, gauze, shampoo, bag balm, rubber bands, paper towels, etc.) used in your barn are deductible.
- Bedding and lime – all ground coverings (shavings, lime, cedar chips, sand, etc.) that are used in stalls are deductible.
- Breeding fees – for a cash basis rancher, then breeding fees are deductible in the year paid.
- Chemicals – any chemicals used such as for fly systems for your barn or those used in your fields are deductible.
- Commissions – if you pay our commissions to a person who assists you in the sale of your alpacas, then this amount would be a deduction.
- Containers – any plastic or metal container used to store grains, feeds or the like are deductible.
- Depreciation – any property you purchase for use on your ranch that has a useful life of more than one year and has a cost over one hundred dollars should be depreciated. These items are also eligible for a section 179 deduction of up to \$24,000 per year. The cost of the item will be spread out over the useful life of the item. Examples: alpacas, tractors, barrows, feeders, trailers, etc.
- Dues – amounts paid to trade organizations, breed registries or such, can be deducted.
- Education and seminars – any schooling or seminars attended to improve your ranch skills is deductible. This includes the cost of the course or seminar and any materials or books needed for the class.
- Employee benefits – the implementation of an employee benefit plan for wage earners employed by you can be deducted. The types are many and varied, so one should consult with their equine tax consultant.
- Equipment and alpaca lease – any ranch equipment or alpacas leased can be deducted as a normal business expense.



The Business Planner by Mike Safley

- Freight and trucking – the cost you pay to deliver alpacas, supplies, or feed are deductible. This includes transporting alpacas to show, breeding facilities, auctions, etc.
- Gasoline, oil, fuel which is used for business vehicles is deductible.
- Hired labor – any person who performs ranch work for you. This could be casual labor, as in a one-time-only job, or a person hired permanently as an employee and paid wages reported on a W-2.
- Hired machine work – equipment and persons hired to do barn grading, moving fences, or any other such job qualify as a deduction.
- Housing expense – if you supply housing for hired hands, then the cost of keeping up the house and its furnishings are a business expense.
- Insurance – mortality, fertility, farm owners, worker’s compensation, 45% of health insurance, automobile and business interruption insurance are all deductible.
- Insect spray and dusts – all fly repellents you use on your alpacas and around your grounds to combat flies and bugs are deductible.
- Interest – any interest on ranch mortgages or purchases of alpaca or ranch equipment is deductible.
- Legal fees – amounts paid to attorneys for services connected with your alpaca business are deductible.
- Licenses and registrations – license fees for vehicles and trailers used in your business are deductible. Also, registration and livestock fees for alpacas that are either for sale or held for breeding can be deducted.
- Organization expense – the costs paid to organize a corporation, syndicate, partnership or any other type business organization must be capitalized and deducted over a sixty (60) month period.
- Rent – if you rent or lease property for your ranch, then that part allocable to the ranch is deductible.
- Repairs and maintenance – all normal upkeep and repairs (painting, shingle repairs, minor tractor or trailer repairs, etc.) are deductible. Any major repair that extends the life of your property must be capitalized.

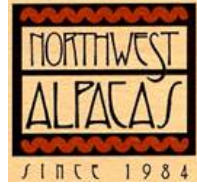


The Business Planner by Mike Safley

- Small tools – any small tool with a life of less than one year and costing less than \$100 can be deducted in the year of purchase.
- Stamps and stationary – these items used in your business to conduct correspondence are deductible. This includes letterhead and envelopes, pens, pencils, paperclips, staplers, printing costs of agreements or any other such items.
- Taxes – state and local sales tax if included in income, highway use tax, real estate taxes, 50% of your self-employment tax and payroll taxes to the extent of those the employer pays are all deductible.
- Tax return preparation fee – that portion which is allocable to the alpaca ranch is deductible.
- Telephone – only that portion which pertains to your ranch business is a deductible expense.
- Travel expenses – while traveling, you can deduct certain expenses that are related to your alpaca business. If you are away at a show or buying trip, or delivering your alpaca to be bred, or you are attending educational seminars then expenses related to those activities are deductible. Your transportation, meals and lodging, cleaning or laundry, telephone and faxes or any other related items are considered travel expenses. Ordinarily, only 50% of business related meals are deductible. You should keep a log or journal documenting travel expenses.
- Truck and car expenses – the costs for the upkeep and operating of your truck and car is deductible. Items included would be gasoline, oil and license tags, repairs and depreciation. You can also use the standard mileage of 32.5 cents a mile for light cars and trucks you use in your business.
- Veterinary Fees and medicines – veterinary fees charged for the care of alpacas held by you in your business, for breeding, or a rental alpaca are deductible.
- Water, gas, electricity – only the portions which are allocated to the ranch office, barns and alpaca facilities.

TEN YEAR CASH FLOW PROJECTION

This projection ([click here](#)) uses the budget items we discussed earlier, and takes into account the tax advantages of your purchase. Assume a tax bracket for your combined state and



The Business Planner by Mike Safley

federal taxes. You can also assume when you begin selling alpacas for your target income per year. Fred can work out this projection on our business plan calculator to represent your personal customized plan. For instance, he can tell you what it would take to make \$60,000.00 per year or any other net income figure that you desire.