

# BUILD A TENT FAQ

## RE: Industry Questions

February 2, 2011

This FAQ is intended to address 5 key questions that have been raised during the last few weeks by Founding Investors and individuals who are undecided as to whether to invest in the BAT Initiative. The questions and responses are as follows:

### Business Model (Nick)

A great deal of discussion has occurred involving the issues faced by the cotton industry and the differences with alpaca. Some of the concerns that have been raised in using cotton as a model range from industry financial supports and size to the "true" impact an organization like Cotton Incorporated actually had on small farms. The important points to note are as follow:

#### Start-up

Fundamentally, there is much to say and do around the BAT Initiative and we're just getting started but ALPACA, like cotton before it, has to take its first steps. CI is not a template but offers some historical perspective for the BAT program. With so many fundamental differences in scope, scale, definition and funding - cotton is certainly not the end of the story.

#### Agricultural programs and the USDA

There are so many research and promotion programs, e.g. beef, milk, eggs, raisins, citrus, wool, cotton that wind up with majority and minority positions both with salient points but with the majority view prevailing. One of the strong safeguards built into these programs is the requirement for a regular referendum of the industry, conducted independently by the USDA, to ascertain if a majority of the farmers want to continue the program. To date I'm not aware of any US commodity group having voted to close its program. In the case of CI, the organization just celebrated its 40th anniversary last year with an all time high annual budget around \$80mm.

Yes, there are farms out there that object to these programs. Some of them have special interests like the organic producers who feel underfunded in that approx 97/98% (don't hold me to the exact % but close) of the farmers are not organic producers, especially with non-food crops like cotton and wool.

Alternatively and with alpaca, there will be opportunities such as coordinated industry research along with branding that can have a major impact regardless the size of the farm and are initiatives that should be pursued. It is just not possible to try and compare BAT and the work ahead point by point to subsidized programs and organizations such as CI.

#### Funding

With these government mandated research & promotion programs a "check-off" or assessment is levied on each unit of a given commodity, i.e. p/bale in cotton, p/pound in beef, p/weight in milk etc. These funds are budgeted by a democratically elected board of directors representative of the industries involved and invested in a menu of marketing and research projects (both production and process research as well as supply chain quality enhancement from farm to retail).

This government mandated assessment model for a 501(c)(3) "not-for-profit" entity is quite different from the L3C "for-profit" self-sustaining model that is being proposed as one recommendation to the Steering Committee. The first point to note is that when many of the agricultural programs were established, the concept of blending for-profit and non-profit objectives in a collaborative approach did not exist. The current economics, however, and "our shrinking world" have changed dramatically how we should think about doing business. Blending the benefits of a "for-profit" strategy with industry building if managed correctly has a number of benefits. Our proposed model depends upon self sustaining entrepreneurial business plans approved and governed by BAT directors designed to generate operating income for BAT and modest returns to shareholders.

I agree that Alpaca will be better served by a L3C approach as opposed to annual levies or assessments for a 501(c)(3) but this difference in funding, while huge, should not prevent BAT from cherry-picking and "borrowing" what is positive and successful from the CI model to build a successful commodity branding, marketing and product research initiative.

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## Product Branding as a First Step

There is a lot that can be said here and I have addressed some of the branding issues below and in my prior Letters to the Industry. I can only say that based on my experience and being intimately familiar with both the national and international textile markets, adding value through ingredient product "branding" is a tried and true strategy executed effectively by sophisticated consumer product companies worldwide, think inside and outside alpaca: Intel Inside, NutraSweet, Dolby Sound and yes, Cotton "The Fabric of Our lives" and the Wool Mark. Also, remember that both cotton and wool have derivative logos for "blends," e.g. Cotton Natural Blend.(60% or more cotton).

## Comments on some specific points recently raised:

- Cotton Incorporated (CI) has no lobbying function. In fact CI is prevented from doing so by federal law-embedded in the Research & Promotion Acts for agricultural commodities. US cotton, through its lobbying arm, the National Cotton Council, does lobby for favorable regulatory legislation, subsidies, tax enhancements etc. NCC might be more like AOBA in this regard. Although I do not yet have an in-depth understanding of all the alpaca industry organizations and their missions I do know that CI and NCC are two completely separate and distinct organizations with separate boards, separate funding, separate mission statements etc.
- The "disco" craze of the 70's (John Travolta and Saturday Night Fever notwithstanding) supported demand for synthetics mainly Nylon and Orlon not so much Rayon. CI began reminding people through advertising, promotion and publicity events why they wouldn't dry their hands on a polyester towel, slide off a chair in polyester jeans, or blow their nose with a polyester hankie. We reminded men how it might feel to wear nylon underwear (sorry Ladies, although cotton seems to work for you as well) and how hot it is in the summer and cold it is in the winter to wear synthetics rather than warm, soft, no itch, comfortable cotton. The disco craze came about in the early start-up years for CI (remember polyester double knit slacks, wide patent leather white belts & sport coats) and provided a perfect context for us to make our case-the rest is history. Cotton jeans, underwear, socks, shirts, towels, bed sheets and canvas industrial products came back in leaps and bounds regaining market share annually. Was all this due to CI's efforts, certainly not, was it helpful to have a market environment conducive to achieving our mission, absolutely, was it essential that the US Cotton industry have a cohesive single strategy and a single voice to articulate that strategy, the answer is yes and CI was and remains the means for achieving it.
- Investing in world class logo identification and a sophisticated functional website sends all the right messages to the US and International fiber/textile/apparel/retail and consumer markets. From where I sit outside your industry, my assessment is that ALPACA is a premium luxury fiber that is under appreciated and under valued in the minds of consumers which trickles down through the processing links in your chain (spinners-weavers-knitters etc) showing up as anemic demand when compared to cashmere, silk, mohair, vicuna etc. I believe that a national brand identity and an internet presence based upon a creative and functional website should be the foundation of your marketing plan and position ALPACA with the major fibers all at a modest cost as compared to when we had to do this for CI; one of the great strengths of on-line marketing! All the integration strategies with the website and a good social media strategy (Facebook-Twitter-Linked-In-etc) all of which is critical for a 21st Century marketing strategy are under consideration. With this type of approach, name recognition alone will drive traffic to farms, farm stores and stimulate quality production that can grow as the supply of alpaca fiber increases.
- FYI: the largest and arguably most sophisticated consumer marketing company in the world is Proctor & Gamble. Think TIDE, CHEER, SAFEGUARD, ZEST, etc. with probably the most professional market/consumer research dept anywhere. P&G came to CI approximately 20 years ago to ask for a license to use the CI Seal Of Cotton logo on every box and bottle of TIDE sold at retail (millions upon millions of consumer impressions daily) and to use the logo in their TV soap opera advertising. To this day you'll see the CI logo on a box of TIDE in your local supermarket. Why did P&G want to do this, the short answer is they saw cotton's market share accelerating, recognized the value-addition of the logo and wanted their products associated with the performance characteristics of the fiber.

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## Leadership (Claudia)

As part of the formative steps for BAT, there have been on-going questions involving future leadership. It is important to understand that as a new Initiative, how, when and what decisions to make has been approached very carefully with the goal to make only those decisions necessary to keep moving forward. This has included – a decision not to spend any of the dollars invested to date until a Steering Committee is in place and trying to “listen” to the discussions. The current plan is as follows:

- On February 12, 2011, the first round of investment requests will be completed and a list of Founding Investors. The only requirement to be a Founding Investor was for an individual or organization to pay \$250 for their initial investment of one voting share. The pool of Founding Investors is unlimited.
- From within the group of Founding Investors a Steering Committee for BAT will be selected by Nick Hahn. Nick has divided the country up into 5 regions using the population of alpacas as a way to draw the geographic boundaries. Three representatives will be selected from each region based on (a) a Founding Investor declaring he/she had an interest in being on the Committee; and (b) a conversation with Nick. In addition, Nick is looking at the backgrounds and experiences of each individual who has expressed an interest in order to round out the skill set for the Committee. Finally, this week we are going to ask those individuals who have expressed an interest in serving to write a very short statement as to where they see this organization in 18 months and 5 years. Nick has contacted and spoken with 10 potential SC members to date.
- The Steering Committee will be announced on or before Feb. 21 and meet within 10 days of announcement. On or before Feb. 12, the proposed agenda for the Steering Committee meeting will be published along with a series of recommendations that I anticipate making to the Committee. These will be recommendation only, of course, but will involve decisions that I believe need to be made to keep moving forward and based on “what I have heard within the industry” over the last few months.
- The Steering Committee will serve for approximately 90 days and be responsible for the next series of financial and management decisions including, but not limited to, a 90 day budget, approval of the Hahn Consulting contract, initial business activities and a communication strategy.
- Final recommendations such as legal structure and how the governing board/council will be structured will be submitted for approval to the Founding Investors at the first annual investor’s meeting to be held in May or June. At that time, transference of governance from the Steering Committee to a governing board will be made.

## Funding (Claudia and Nick)

There have been a number of questions involving who “owns this collaboration”, the differences between a “founding investor” and later investments; and where will future \$\$\$ come from.

The plan to date is as follows:

- The purpose of the Founding Investor category was to thank those individuals and organizations who “stepped to the plate” early on and provided the necessary capital to get started. Starting with AOBA’s commitment in August, as of today there are over 126 of our farms and organizations who have made an initial commitment to this new industry collaboration. I fully understand the script is still a work in progress, failed initiatives are a very real concern, and working collaborations can be very difficult to implement. So to the Founding Investors to date – Thank you.
- The question as to who owns this is easy. In concept, it has always been the intent for BAT to be an industry collaboration. As such and by using a for-profit model, it is owned and governed by the investors. To ensure an equitable governance structure, a one vote/one share concept is the proposed structure. Additional dollars invested are intended to result in an increased return to investors just the same as if someone buys 100 shares in Apple as opposed to 10. This voting and investment structure is the same whether an investor is an individual or an organization.
- The purpose of the funds invested to date is to pay for a CEO and have a small budget as the Steering Committee defines the initial business activities. All funds have been held “in trust” by AOBA for BAT, segregated into a separate bank account and will be transferred as soon as a new legal organization has been established. In the interim, the funds will be expended consistent with the budget approved by the Steering Committee.

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- After Feb. 12, we will continue to recruit new investors to build the first 12-18 month budget. We understand we have not “reached everyone” and some people may be in a wait and see mode. The objectives are to build something that brings value to our industry, individual farms and creates the ability for us to brand and compete in the market. If the initial plan demonstrates the potential to accomplish these objectives, it is likely that the new organization will enjoy industry wide support. With the exception of the initial decisions to be made at the first annual meeting, going forward there will be no difference in voting or investment rights between a founding investor or someone investing after Feb. 12.

## Communications and transparency (Nick and Claudia)

The objective with BAT since November has been to communicate the purpose and plans as clearly and widely as possible. To begin with BAT has relied on and received tremendous administrative support through the AOBA office and Kate Eggleston. In the absence of any infrastructure, it was certainly a place to begin the communication process. Another organization that has been tremendously supportive and posted on BAT’s behalf has been AlpacaStreet. In order to broaden the communications, however, two weeks ago a Facebook presence was started and a group – Alpaca Incorporated – created. Although there have been some unintended consequences as we learn how best to use some of these tools, FB and social media have already proven invaluable ways to reach beyond our existing organizations and ensure as much inclusiveness as possible.

As soon as a final name is picked, we will start building communication tools that are independent of existing organizations. For example, the Alpaca Incorporated “group” will be converted to its own FB Business Page (Fan page) and anyone interested will be able to join or transfer over. The goals are to be transparent, timely with communications and keep investors “tuned in”. In so doing, we will continue to explore a communication plan to help ensure these goals are achieved.

## Name (Nick and Claudia)

There has been some confusion over naming the new organization, it was tentatively suggested in Nashville to call BAT “The Alpaca Alliance”. Subsequent to that time Nick has suggested “Alpaca Incorporated”. There are good cases to be made for both approaches. This is an initial agenda item for the first meeting of the Steering Committee.