

January 9, 2011

Dear Alpaca Producer:

This is a second in a series of “letters” I am sending to keep in touch with all of you interested in the Build A Tent Initiative. In this letter, I wanted to focus on the question, “Why Invest Now?” Following is a brief summary as to the opportunity, a little context from the Cotton Incorporated and a few details.

As the enthusiasm builds around this Initiative, I continue to believe we are on the leading edge of what are terrific next steps for your industry.

A. ALPACA INCORPORATED - An Investment Opportunity

Why now?

- Favorable fashion trend toward luxury fibers in better designer apparel and home textiles
- Recovering, albeit slowly, national economy
- Industry motivation to grow the fiber segment of the business
- Unique for-profit business model
 - Global sales thru AI website (Modified EBay model)
 - Marketing services for farms and coops (hourly fee)
 - Website search engine (transaction fee)
 - Retail store-NYC (Industry showroom)
 - Social/environmental component (% of profits to designated causes)
- Availability of Hahn Consulting and Nick Hahn (<http://www.cottoninc.com/pressreleases/?articleID=93>), former President & CEO Cotton Incorporated (www.cottoninc.com) arguably the most successful agricultural commodity branding and marketing program in America.
- My most recent work has included small and medium enterprise (SME) **organizing, branding & marketing:**
 - Spice growers & processors (**Sri Lanka**)
 - Silk growers & processors (**Thailand**)
 - Forestry & wood products producers (**Montenegro**)
 - Cotton growers (**Pakistan**)
 - Cotton growers (**Kazakhstan**)
 - Acrylic yarn spinner (**Peru**)
 - Cotton jeans & denim company (**Mexico**)
 - Cotton sheet & towel company (**Brazil & Argentina**)
 - IT entrepreneurs and fruit & vegetable growers (**Armenia**)
 - Australian Cotton Council (**Australia**)
 - NZ Wool Mark (**New Zealand**)

Capitalizing **Alpaca Incorporated** as a for-profit trade organization represents the potential for a direct return on your investment through a variety of business models embedded within its governance structure. There is also an indirect return to your Alpaca fiber business in the form of increased market share, increased production, strengthening margins and an appreciating asset in the form of brand identity. Not to be underestimated is the ongoing exposure that will be created for the industry in general that, in turn, will positively impact the traditional livestock activities.

B. A Little Perspective

The cotton industry was faced with a number of barriers to the financial success of cotton farmers. They included shrinking market share, falling production, lower prices and reduced margins. In response, a small group of industry visionaries (farmers & processors) formed Cotton Incorporated to “brand” the commodity and reposition cotton as a valued-added high performance fashion fiber. The start-up priorities included two fundamental assignments: a) the design and implementation of an industry logo (the seal of cotton) as a banner under which the industry could rally and coalesce behind a common theme and b) an analysis based on the use of professional business tools that aid a company (industry?) compare its actual performance with its potential performance; where are we, where do we want to be, how can we get there and how do we define the gap between benchmarks and allocated resources.

Cotton’s share of market had increased from a low of 36% (all textile categories) in early 70’s to 63% in early 90’s in spite of strong synthetic fiber competition, this increase drove higher production and better pricing for farmers and processors. Texas A&M was retained by the USDA to conduct an independent study to evaluate the effectiveness of CI and determine the monetary return to farmers on each dollar they invested in the program. The conclusion was that farmers received \$3 for each \$1 invested in the form of lower production costs, better pricing and increased net profit per acre.

I understand very well the difference in scale, scope and funding options between cotton as a row crop supporting a large and diverse commercial industry and the largely cottage based live stock alpaca industry of alpaca fiber. Although I am taking this into account for purposes of analyzing and making-the comparisons, many of the principles and opportunities are the same and based upon end-use textile/apparel fiber marketing.

C. Details

The proposal for bringing alpaca fiber into the mainstream of US textile markets with increased recognition, increased production and improved margins is to create an industry organization (Alpaca Incorporated) with a clearly defined mission, strong industry participation, a well structured operating platform, an equitable funding and governance plan, professional management and a holistic operating strategy. The business model will be adaptable, allowing for advice & consent on the part of a governing board and outside industry experts. Much of this can be done concurrently and with proposed initial funding we can initiate the two critical marketing assignments (logo and website) and an industry (GAP) analysis shortly after start-up. This gives the industry tires to kick, an appreciating asset and alleviation of a classic chicken & egg conundrum. With AOBA’s offer to provide administrative and accounting services during our fragile start-up and with the support of the organizing committee I can manage this process, provide leadership to the industry and generate positive value-added publicity for US Alpaca. My reputation in the US fiber, textile and apparel industries can be leveraged to the benefit of US Alpaca and I’m prepared to commit my time and experience to this effort in a leadership capacity as soon as practical. First steps initiated concurrently upon effective start-up:

- Industry orientation
- Theme and mission statement
- Logo/website design
- Gap analysis

I view these assignments as inter-related and will coalesce around the mission statement as developed by the BAT leadership as the Initiative moves forward.

As always, I sincerely look forward to working with everyone in the industry.

Sincerely,

Nick