

The Emergence of the Peruvian Alpaca Industry in American Markets

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Abstract

This white paper provides a comprehensive analysis of Peru's alpaca industry, a sector renowned for its sustainability and cultural significance. Despite the high quality of alpaca fiber and its efficient, environmentally friendly production processes, Peru's alpaca products remain under-recognized in global markets, particularly in the United States, where cashmere dominates as the luxury fiber of choice. This report, informed by an extensive tour with the University of Georgia, examines the current state of the alpaca industry, including its historical roots, market characteristics, production processes, and comparative advantages over other luxury fibers such as cashmere.

Peru accounts for 80% of the world's alpaca fiber production, a vital industry that supports the livelihoods of approximately 82,000 families. Alpaca fiber is prized not only for its softness but also for its diverse natural colors, durability, and hypoallergenic properties. However, the industry faces challenges such as competition from synthetic fibers, market volatility, and a lack of international awareness.

A detailed market analysis reveals the strategic importance of the US-Peru trade relationship and the potential for growth in the American market. The SWOT analysis highlights the industry's strengths in sustainability and quality, opportunities for technological advancements and new markets, and threats from climate change and market competition.

The white paper concludes with recommendations for enhancing global awareness and market penetration through targeted marketing strategies, collaborations, and leveraging the growing demand for sustainable products. By focusing on these areas, Peru's alpaca industry can achieve

greater international recognition and economic success while preserving its cultural heritage and commitment to sustainability.

Introduction

This report aims to analyze the alpaca industry as a whole after completing a thorough tour of different areas of production on a trip to Peru with the University of Georgia. The industry within Peru is one of the most sustainable and vertical supply chains in the world, while still paying homage to the Incan culture and their ancestor's weaving techniques. However, even with alpaca and other camelids being some of the highest quality fibers in the world and with these spectacular production approaches, Peru's products are not well known to Americans or other countries around the world. Instead of alpaca, baby alpaca, or other mixes, cashmere is instead referred to as a luxurious fiber when shopping in America. The goal of this white paper is to provide a comprehensive analysis of the industry while contributing a solution to penetrate foreign markets.

Overview of the Peruvian Alpaca Industry

Peruvian breeders and manufacturers hold 80% of the world's production of alpaca fiber. It is an essential and notorious industry to the economy of Peru as well as the livelihoods of families.

Alpaca is known for being an exceptional fiber not just for its softness, but also Peru's unmatched sustainable production lines.

The alpacas are members of the camelid family native to South America, along with llamas, vicuñas, and guanacos. Scientists and archaeologists have found that they evolved from a

common ancestor around two million years ago. Since then, alpacas were domesticated around 6,000-5,500 years ago (Felix). The animals were highly valued among the Incas for their meat, wool, fuel, and source of string. Alpaca wool was used to make clothing for royalty and nobility in those times. However, the conquest of the Spanish had devastating effects on the population, as new diseases were brought over from the old world. In the 19th century, alpaca products reached their highest point as the fiber became popular in Europe and North America. Peruvian breeders increased regulations and production techniques during this time. Unfortunately, alpaca products have been on the decline once again as manufacturers find themselves in competition with synthetic fibers and other natural wools. Despite this, alpaca production is still an important piece of Peruvian culture, providing not just clothing but also food and jobs to the local people.

Market Characteristics

The market for camelid wool is a highly specialized market, with a high demand for quality. The alpacas are extremely vital to the Andean agriculture and income for about 82,000 families (Wurzinger). Quality control is one of the top priorities for these families and breeders, even sorting through the wool by hand for a closer inspection. There are many government laws regulating alpaca breeding and farming, as well as local and national initiatives to ensure top quality production. Many farms and production sites still implement techniques from the pre-colonial era, using back-strap looms and natural dyes (Culture). These durable textiles are sought after around the world for their unmistakable beauty.

Creation of Alpaca Textiles

The process of creating textiles from alpaca uses approaches that have been passed down through generations of Andean crafters. The first step is to shear the alpacas, which is done typically once a year in the springtime. The wool is then sorted by color and quality. After sorting, the wool must be washed to remove any dirt and debris. The material is then carded by hand to separate fibers and create a singular texture. A drop spindle is utilized to spin the wool into yarn, where it is then ready to be woven into products. Every point of the procedure is done either by hand with traditional processes or with modern technology.

Properties and Benefits of Alpaca Fiber

As it is classified as a luxury fabric, the wool from alpacas contains special characteristics that sets it apart from other animal fibers. Any individual fiber diameter from the animal can range from 15-36 microns, which can reduce the prickly sensation felt from other types of wool. The alpaca is also a single-coated animal, meaning the fiber usually does not have to be dehaired like cashmere. This in turn leads to a greater yield of product after processing. Along with this, alpacas come in 16 different natural colors that can be blended and dyed into many more, saving the need for an excess of water and dyes. Special tests have also been conducted on the fiber, which have concluded that it is flame resistant, water resistant, free of lanolin, hypoallergenic, and has a high natural thermal conductivity level. Aside from all these facts, just a touch of the fabric will show how soft and warm it is.

Comparing this to cashmere, one of the alpaca industries biggest competitors, there are a few key differences. While alpaca is a camelid, cashmere fiber comes from the cashmere goat of China and Mongolia. Cashmere fiber is typically white or cream colored, and needs to be dyed if other

colors are desired. Both fibers are considered luxury, however cashmere lacks the insulation properties that alpaca is known for. Alpaca fiber can be spun into many different types of yarn, while cashmere is usually spun into fine yarns. Another key point is that cashmere is going to be pricer as production is limited to how many goats are available and the amount of fiber they produce in a given year.

Market Analysis Between Peru and The United States

The United States first established relations with Peru in 1827, just six years after they received their independence from Spain. According to the U.S Department of State, Peru and America “enjoy a strategic partnership based on the shared values and...mutually beneficial trade” (U.S Department of State). According to the bureau, the two countries use their partnership to advance trade as well as climate change and opportunities for underdeveloped populations.

Reports show that trade in goods between the countries has skyrocketed from \$9.1 billion in 2009 to \$22.2 billion in 2022, and trends clearly predict that this number will continue to increase. This two-way trade growth is due to numerous reasons, but it can also be attributed to the increase in appeal for more sustainable fabrics as the crisis in climate is rising. As more Americans seek out environmentally-friendly commodities, alpaca will prove to be a great resource.

SWOT Analysis

SWOT Analysis is a technique used in a business’s strategic planning to evaluate its current state and future position in the market. The analysis looks at four characteristics: strengths,

weaknesses, opportunities, and threats, to understand how the business is doing and where it could potentially go.

As for the Peruvian alpaca industry, their strengths mainly lie in their sustainability, the luxuriousness of the fiber, and the circumstances provided to local communities. Their weaknesses are limited product lines, lack of awareness in foreign markets, and a lack of “trendiness”. Opportunities include the demand for environmentally conscious lines, collaborations with designers or celebrities, technological advancements, and untapped markets. Finally, their threats involve sustaining ecological practices and the climate crisis. The analysis is presented in full below:

Strengths:

- Increased appreciation for sustainability is driving demand upwards.
- Production provides communities with stability through entrepreneurship, employment, and culture.
- Alpacas are naturally colorful, reducing the need for dyes.
- Alpaca fiber is extremely soft, durable, hypoallergenic, and flame and water resistant.
- Alpaca production is extremely efficient, more so than cashmere.

Weaknesses:

- It can be challenging to promote alpaca in foreign markets.
- Not a lot of variety in current product lines.
- Most alpaca clothing products do not appeal to younger markets as they do not match the current trends easily.

Opportunities:

- The demand for environmentally conscious products continues to increase.
- Due to mass production, the quality of cashmere has declined, pushing customers to find other alternatives.
- As technology advances, the alpaca industry can yield better quality control.
- There is a vast market that remains untapped due to lack of outreach.
- The alpaca industry could cause other businesses to adopt eco-friendly practices.
- Future business opportunities could be found in collaborations with designers and foreign investment.

Threats:

- As demand increases, challenges are presented for maintaining sustainable practices while keeping the market up to scale.
- The climate crisis has negatively impacted production, as well as the unpredictable climate is hurting local farmers.
- There is a lack of sufficient government aid to incentivize breeders, which has an effect on the quality of their life.

The SWOT Analysis presents that the Peruvian alpaca industry has many positive strengths and opportunities, but must also combat the weaknesses and upcoming threats if they want to continue to grow and emerge into external markets.

Marketing and Distribution Strategies

One of Peru’s main advertising events is their national alpaca day and their Alpaca Fiesta. The festival's business mission is that “Alpaca Fiesta aims to promote Alpaca Fiber across the global textile market by gathering breeders, businesses and institutions linked to the world of alpaca and

South American camelids in festive and highly competitive ambience” (Alpaca Fiesta). By throwing this event, awareness is brought about the wool and the people who produce it. Many of the actual advertising put out by companies uses alpacas or people wearing alpaca products photographed in scenic nature spots or iconic locations of Peru. This highlights the meaning behind the items and Peru’s rich culture and love of the environment. However, many customers feel as though they can not wear these products back home in an American city or suburban setting. If the already utilized advertising strategy was combined with showcasing alpaca products in a more everyday scene, then more profit could be acquired by showing consumers how the products could be worn back home.

Challenges and Opportunities

Challenges

As previously mentioned, some of alpacas biggest competition is found in cashmere and synthetic fibers. In America, when discussing luxury fabrics, cashmere is often the first name brought up instead of alpaca. This lack of awareness is clearly detrimental to the industry, as how can purchases be increased when alpaca is not even sold in most stores? Synthetic fabrics are also very prominent in the market for price and ease of production. To combat this, alpaca businesses would need to implement an increase of advertising and shift part of their target consumer base to foreign buyers.

Another challenge presented through the consumer base is the current desire for white fabric used for dyeing into other colors. Because of this, breeders are specifically breeding white alpacas and other camelids while the numbers of animals of other natural colors are diminishing. This specialized breeding could be an approach to withstand the rivalry against cashmere goats,

whose coat is consistently white or cream colored. However, initiatives have been undertaken to preserve the beautiful colors of alpacas, pointedly the stark black alpaca.

Opportunities

With the ongoing and escalating climate crisis, customers find themselves drawn towards products designed to help the Earth such as reusable straws and beeswax coverings. What could be more enticing than an industry whose primary goal is sustainability and has been using the same farming, weaving, and dyeing practices for hundreds of years? As the consumer base finds themselves attracted to more environment-conscious efforts, this is the perfect time for the alpaca industry to broaden its marketing and show that its fiber is a great solution to harmful synthetic materials.

Along with an increase in marketing focused on preserving the environment, a larger audience could be reached by a general increase in advertising and collaborations. What many brands are doing across the board is utilizing social media and celebrities to influence buyers, pushing out videos and content to sway shoppers into purchasing. Just one brand deal with a popular “influencer” could increase sales tenfold as consumers are trying to buy the right products to change their look and fit in. Along the lines of brand deals, collaborations with other brands could also be advanced. While many alpaca businesses have done work in the past with fashion companies such as Kate Spade and Max Mara, the luxurious fabric of alpaca could even be brought to work with middle-class level designers to be seen more commonly in stores. The combination of these two techniques would bring more attention and acknowledgement to the fiber itself.

Future Outlook and Recommendations

As stated before, the alpaca industry has immensely grown over the world. According to Yahoo Finance, the market is on track to reach \$5.32 billion by the end of 2033, a striking increase from the current \$22.2 billion (Yahoo). As consumer interests are changing to appreciate biodegradable materials and luxury brands continue to emphasize premium materials, alpaca fiber aligns with both of these interests which allots for their growth rate.

Conclusion

This report aimed to give a concise overview of the current state of the Peruvian alpaca market and its continued emergence into the American market. As of now, the industry is extremely successful, and its growth is increasing each year. Many companies find themselves working with luxury fashion houses and brands around the world, and almost every corporation has the unique value instilled in them to work to preserve the Peruvian culture as well as the environment with their sustainable practices. The alpaca is already a very eco-friendly animal, with their lack of need of water for dyeing and even with how they eat grass without damaging the ecosystem.

After the Spaniards conquered the Incan empire, the alpaca industry was at a low as the Incans were forced away from their farms into working for the Spanish. Thankfully, the Peruvians have steadily rebuilt their market into the success it is today. According to economists, the commerce is set to grow at an astounding rate. If the business owners combine this with expanded marketing into foreign markets, they would surely experience maximum profits.

Peru's alpaca industry has important characteristics that every market could learn from: how to keep your business close to your culture and maintain a healthy relationship with the environment.

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