

# Adding Value in Agriculture, Food and Forestry

**F**arm businesses can increase income by undertaking a new management, marketing or production practice to increase revenue, lower costs or both. The following practices all have potential to boost farm income.

- Building on-farm grain storage bins to selectively market grain at higher prices
- Placing marginal land in a conservation program or leasing land for hunting to generate higher net revenue from those acres
- Growing specialty crops, such as fruits or vegetables, that yield a greater return on investment than traditional commodity crops
- Making agricultural commodities or products more valuable by responding to customer needs

This publication focuses on opportunities to add value to agricultural commodities or products as a pathway to increase farm income. It describes seven ways to add value and three considerations for how to create and capture value. It also offers guidance on how to take an idea and convert it into a value-added business, and it concludes by listing technical and financial assistance resources.

## Increase income by adding value

To add value that leads to earning more income and profit, a farm must do two things:

1. **Create new value** by converting an agricultural commodity into a product or making an agricultural product or byproduct more valuable. To have value, the product should meet a buyer's needs or solve a problem the buyer experiences. If it does and it offers something not otherwise available in the marketplace, then the business can gain a competitive advantage.
2. **Capture the value created** at final sale. If the business gains a competitive advantage, then it may be able to command a premium price for its product.

You can visualize the value-added opportunity by observing trends in the U.S. food dollar, which shows the percentage of a dollar spent on food that is earned by farms versus the percentage earned by other businesses. The USDA Economic Research Service calculates the food dollar for various products. (Figure 1 shows the food dollar for an average food product.)



**Figure 1.** Most of a food's value is added after it leaves the farm. Source: [Food Dollar Series](https://www.ers.usda.gov/data-products/food-dollar-series/quick-facts/), USDA Economic Research Service (<https://www.ers.usda.gov/data-products/food-dollar-series/quick-facts/>).

In the graphic, the farm share (14.3 cents) represents the portion of farm commodity sales in each dollar spent on food. The marketing share (85.7 cents) represents the post-farmgate value added. The marketing share includes processing, transportation, wholesale and retail activities. Over time, the farm share has declined, and the marketing share has grown.

Farms add value when they do at least one "marketing" activity. They may then earn income for that activity. If their costs are less than the income they receive, then they can profit from the value-added activity.

## Know these 7 ways to add value

Farms can add value to agricultural commodities and products in different ways. Often, the method(s) that farms use to create value-added products fit in at least one of the following seven categories.

1. Change a commodity's physical state or form.
2. Make a product in a way that enhances an agricultural commodity's value.

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3. Physically separate an agricultural commodity or product from other commodities or products to enhance its value.
4. Use an agricultural commodity to create farm-based renewable energy.
5. Aggregate and market the agricultural commodity as a locally produced food.
6. Link a service or recreational experience to an agricultural product.
7. Find new uses for agricultural byproducts.

Creating a product or service offering that fits in at least one of these categories enables a farm to 1) earn a greater portion of revenue from an agricultural commodity and 2) expand its customer base.

Table 1 gives some examples of value-added products and services that align with these categories. Note, some examples fit in multiple categories. By adding value in more than one way, value-added businesses can compound the value proposition. Ultimately, the selling opportunity depends on buyers' perceptions of a product or service's value and their willingness to pay for that value.

## Consider these key points to successfully creating and capturing value

Before you venture into value-added production, keep in mind these three key considerations to ensure that you cannot only create a valuable product but also capture that value when you sell the product.

### Understand consumer demand

Understanding consumer demand is critical for any farm, especially those seeking to adapt their businesses. Consumer demand changes and demand shifts may require changes to how you create a product or market it. You can explore market demand in a number of ways:

- **Assess the competition.** Identify and study similar businesses, what they offer and what they charge. Order products from other producers, and think about how your product compares.
- **Listen to consumers.** Search the internet for consumer forums, blogs, social media groups and other sites where people talk about a specific type of product. Look for patterns in their sentiments and unmet needs.
- **Learn more about potential demand.** Use the Missouri Ag Intel website and connect with a local Small Business Development Center counselor to collect market research data. Hire consultants to develop a formal marketing study.
- **Network with similar businesses.** Join industry associations, and network with similar businesses

in Missouri and beyond. Ask them frank questions about what works or doesn't work when selling.

- **Do product research.** Find a low-cost way to demonstrate your products to potential buyers. Produce small batches, and be intentional about gathering feedback. For example, spend a season at a farmers market refining recipes and engaging with potential or repeat customers. Gather feedback on your product, packaging and price.

Regardless of the resources spent on understanding demand, what's important is that conducting market research becomes a regular habit for a business owner. Based on what you learn during your research, continue to refine your product and how you make it, the consumers you target and the markets you access. Maintain a feedback loop with your customers.

### Access markets

To sell a value-added product, farms must use appropriate market channels. Some market channels to consider include:

- Direct to consumer
- Retailer
- Institution
- Wholesaler, broker or distributor
- Cooperative, food hub or assembler

Farms may sell direct to consumers at farmers markets, farm stands or stores, agritourism operations, U-pick farms or online marketplaces. Farms can also sell to retailers, such as grocery stores or agribusinesses, that market to consumers, or they may market to institutions, such as schools, prisons, hospitals or military bases. Other marketing channels involve engaging value chain actors such as wholesalers, distributors, brokers, marketing cooperatives, food hubs or other assemblers. These actors provide services for moving products to end users. Wholesalers, distributors and brokers may purchase products to resell or charge a fee or percentage of the selling price for services rendered.

Producers should carefully consider the price potential and volume and time requirements involved in marketing through each of these channels. Each channel varies in its complexity, and each takes a different time commitment. Selling direct to consumers often generates the highest selling prices but can be the most labor-intensive. It may require savvy marketing to develop a customer base. When selling through a market channel where product changes hands more frequently to reach the end user, the farm reduces its odds of capturing the majority of a product's retail value. In other words, using brokers or wholesalers may simplify marketing and reduce the marketing-related time commitment, but it can reduce the price you receive when selling a product. At the same time, brokers and wholesalers can

**Table 1. Examples of value-added products by category.**

<b>Category</b>	<b>Examples</b> (Some may fit in multiple categories)
Change in physical state	<ul style="list-style-type: none"> <li>• Flour from milled wheat</li> <li>• Jam or juice from processed elderberries</li> <li>• Soybean oil from crushed soybeans</li> <li>• Wine from pressed grapes</li> <li>• Hardwood flooring from milled trees</li> </ul>
Produced in a way to add value	<ul style="list-style-type: none"> <li>• USDA certified organic blueberries</li> <li>• Grass-fed milk</li> <li>• Pasture-raised eggs</li> <li>• Wildlife habitat-friendly beef</li> </ul>
Physically segregating items depending on their final characteristics	<ul style="list-style-type: none"> <li>• Food-grade corn</li> <li>• High-oleic soybeans</li> </ul>
Farm-based renewable energy*	<ul style="list-style-type: none"> <li>• Biodiesel produced from soybeans</li> <li>• Ethanol produced from corn</li> <li>• Energy generated by an anaerobic digester that uses animal manure as a feedstock</li> <li>• Electricity produced by wind</li> <li>• Energy created from wood biomass</li> <li>• Solar energy from panels to power a greenhouse</li> </ul>
Aggregated and marketed as a local product	<ul style="list-style-type: none"> <li>• Foods sold directly from farm to institutions, such as hospitals or schools</li> <li>• “Ozark” artisan cheeses sold at a farm store</li> <li>• Local beef processed and marketed by group of cattle producers</li> </ul>
Service or recreation with an agricultural product	<ul style="list-style-type: none"> <li>• Jam-making classes offered at a U-pick orchard</li> <li>• Farm-to-table dinner featuring farm-raised and -prepared dishes</li> </ul>
Use processing byproduct	<ul style="list-style-type: none"> <li>• Whey powder made by drying whey yielded during cheese production</li> <li>• Lard captured when processing hogs</li> <li>• Biodynamic “teas” created from composted manure and wood scraps</li> </ul>

\*Products could be sold to consumers or used on-farm to reduce operating costs or communicate farm values to consumers.

Source: Categories adapted from Value-Added Producer Grant applications; Agricultural Marketing Resource Center for examples of known businesses

provide marketing networks and services that may allow a farm to access larger buyers and larger orders than an individual producer could reach by himself or herself.

### **Choose a business structure**

When adding value to agricultural commodities or products, farms may work independently, or they may partner with other farms and businesses. Examples of business structures commonly used in agriculture include limited liability company (LLC), partnership, corporation and cooperative. Each has its own formalities, benefits and implications that prove effective for various situations.

Careful thought should be used to select an appropriate entity. Some key factors to consider include business goals, capital needs, liability protection, tax implications and management.

**Business goals.** Think through your current and future plans. If the business grows, then do you want to bring other family members or equity investors into the fold? If you are a current business owner, then you might want to separate the new business enterprise from your existing operations.

**Capital needs.** To properly finance the business and begin operations at an appropriate scale, you need capital. Do you have the capacity to acquire capital (self-

financing, debt, leverage or grant funding) needed for the business, or do you need other farmers or investors? Do you have an appropriate amount of working capital if expectations for sales or expenses are not met in the early start-up stages?

**Liability protection.** Consider how to separate your personal assets and business liabilities. Some business structures such as corporations and limited liability companies have limited legal liability. In other words, if the business fails, then you only risk the money you invested in that business. Creditors cannot come after your personal assets in those cases.

**Tax implications.** Taxation refers to how profits are distributed and taxed. Some corporations will have to pay taxes on earnings and then pay dividends to shareholders, who are then taxed. This situation results in double taxation. Other entity structures — for example, LLCs and S corporations — do not have to pay taxes and allow profits to pass directly to member-owners, who are only taxed as individuals.

**Management.** You need a plan for who will make decisions and how to organize the reporting relationships. Who will run the day-to-day operations and manage the business? Depending on the business structure you choose, organizing documents such as partnership agreements, bylaws or operating agreements could be required. They outline decision-making roles and responsibilities.

Some structures such as corporations or cooperatives are managed by boards of directors, which their shareholders or members, respectively, elect. Boards have defined decision-making processes. In partnerships, usually all general partners have an active role in management activities. LLCs have management defined in their operating agreements. Some structures must have annual meetings.

Seeking advice from accountants, bankers or attorneys is recommended to help decide the most suitable business structure for a given situation.

## Start your value-added business with a plan

Developing a value-added agricultural business takes work. For a value-added business to succeed, owners must invest in careful research and planning. Spend some time doing your due diligence, and investigate the risks, costs and opportunities.

Answering these questions will get you started.

- Who are the customers you will serve?
- What problem do they have?
- What technology or method can you use to create a product that solves the problem?

- What regulations or safety procedures would apply when making your product?
- What raw materials do you need?
- What features and benefits does your value-added product have?
- What makes your product different from the competition?
- Where will you sell your product, and how will you get it there?
- How much of your product can you sell at a certain price?
- Who will manage the business, and who else is needed for the venture to succeed?
- What facilities or equipment are needed to make the product, and what do they cost?
- What are your working capital needs and capacity to get debt financing?
- What is the business' cost structure and potential profitability?
- What potential risks are involved in this business?

Document your answers to these questions in a written feasibility study that you can keep on file. The feasibility study will help you assess if the technical, economic, legal or marketing components of your business idea are viable. Use it to make a well-informed decision about how to proceed.

If your value-added idea seems feasible, then develop a business plan to articulate how the potential benefits outweigh the costs and risks. In your plan, note how you intend to take your idea and turn it into a business capable of earning a return on the investment.

## Where to find technical and financial assistance

You may be eligible to access technical and financial assistance that can help you to create, develop and operate a value-added business. With grant or cost-share dollars, you can hire consultants or acquire working capital that can improve the likelihood of developing a successful business. Additionally, business counselors or experts can be great assets for value-added startups. This list gives examples of where to go to find assistance:

- [Missouri Value-Added Agriculture Grant program](http://agriculture.mo.gov/abd/financial/valaddgrant.php) (agriculture.mo.gov/abd/financial/valaddgrant.php)
  - *Description:* Program funds feasibility studies, business plans and related activities for developing an agricultural value-added business.
- [Missouri Value-Added Agriculture “Farm to Table” Grant Program](http://agriculture.mo.gov/abd/financial/farmtotable.php) (agriculture.mo.gov/abd/financial/farmtotable.php)
  - *Description:* Program awards grants to purchase equipment and hire professional services so

value-added businesses can sell locally grown agricultural products to institutions.

- [USDA Value-Added Producer Grant \(VAPG\) program](http://www.rd.usda.gov/programs-services/value-added-producer-grants) (www.rd.usda.gov/programs-services/value-added-producer-grants)
  - *Description:* Program provides funding for value-added planning and working capital grants.
- [USDA Rural Energy for America Program Renewable Energy Systems & Energy Efficiency Program](http://www.rd.usda.gov/programs-services/rural-energy-america-program-renewable-energy-systems-energy-efficiency) (www.rd.usda.gov/programs-services/rural-energy-america-program-renewable-energy-systems-energy-efficiency)
  - *Description:* Program provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses for renewable energy systems or energy efficiency improvements. Producers may apply for new energy-efficient equipment and system loans for agricultural production and processing.
- [Missouri SBDC for Agriculture, Food and Forestry](http://extension.missouri.edu/programs/growing-agribusiness-sustainably/missouri-sbdc-for-agriculture-food-and-forestry) (extension.missouri.edu/programs/growing-agribusiness-sustainably/missouri-sbdc-for-agriculture-food-and-forestry)
  - *Description:* Center offers free business counseling supported by the U.S. Small Business Administration to help Missouri agri-entrepreneurs develop and expand their businesses.

## Where to go online for resources

Refer to these online resources to find information and templates that will help you research and plan a new value-added business.

- [Missouri Ag Intel](http://agintel.missouri.edu) (agintel.missouri.edu)
  - *Description:* Online mapping and data resource helps Missouri producers learn about and assess alternative agriculture opportunities given a producer's local market opportunities, level of expertise, financial position and available agronomic and machinery resources.
- [Ag Plan](http://agplan.umn.edu) (agplan.umn.edu)
  - *Description:* App helps value-added businesses to develop business plans; it includes tips, resources and sample plans.
- [Business Model Canvas](http://strategyzer.com/canvas/business-model-canvas) (strategyzer.com/canvas/business-model-canvas)
  - *Description:* App helps to sketch your ideas into a business model.

## References

Explore this topic further at the national [Agricultural Marketing Resource Center](http://agmrc.org/business-development/valueadded-agriculture) (agmrc.org/business-development/valueadded-agriculture) hosted by Iowa State University and partially funded by the U.S. Department of Agriculture.

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