AGRICULTURAL

MU Guide

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Adding Value

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The term *income enhancement* describes the process of increasing income by undertaking a new management, marketing or production practice. Feeding on-farm corn production to your hogs is one potential means of enhancing farm income; another is building on-farm storage for corn to take advantage of seasonal basis trends. Some producers enhance income by placing marginal land in a conservation program or leasing land out for hunting or by producing an alternative crop that may have a greater return on investment than a commodity crop. Others enhance income by adding value. Thus, *value added* is a subcategory of income enhancement. It is important to realize that value added is only one of several approaches that may need to be used jointly to meet the goal of enhancing income.

Adding value is the process of capturing or creating value in a product to garner a greater portion of the value of that product at final sale. Figure 1 shows the trend over a period of some 40 years in the way the value of food, fiber and fuel products at final sale is divided between farm businesses and post-farm businesses. The percentage of value due to farm businesses has declined steadily relative to the percentage of value added by post-farm businesses.

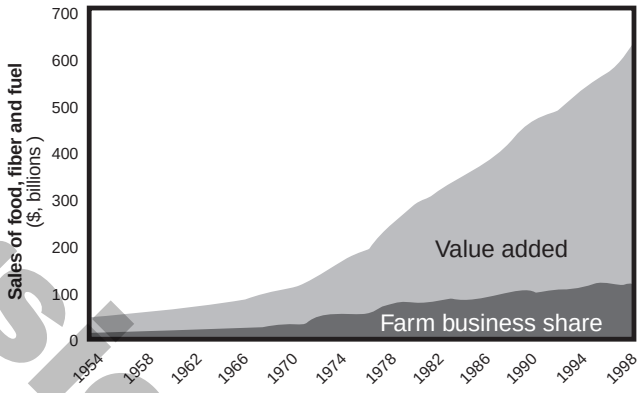

Figure 1. Most of the value of food, fiber and fuel products at final sale is added after they leave the farm.

Categories of added value

Many times an agricultural value-added business requires a combination of techniques to provide producers with a competitive advantage in the marketplace. There are essentially five "and / or" categories of added value:

1. **Producing and marketing a real or perceived quality attribute (or characteristic).**

   Examples of a real quality attribute: low-phytate corn (low-phosphorus feed for swine), organic soybeans, large tomatoes

   Example of a perceived quality attribute: A dairy markets an "Ozark brand" of cheese to create consumer perception of dairy farming in the beautiful Ozark mountains.

   and/or

2. **Reducing transaction costs.**

   Example: Thirty cow-calf producers join together to market feeder cattle as a group to one buyer rather than have the buyer transact business with 30 individuals.

   and/or

3. **Bundling products.**

   Example: A beef producer and a wood producer jointly market beef and flavored wood chips for the ultimate grilling experience.

   and/or

4. **Producing and marketing a commodity that improves operating efficiency somewhere up the supply chain.**

   Example: Producers use a new wheat variety that

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improves milling and baking efficiency so that processors up the marketing chain are willing to pay a higher farm price.

and/or

5. **Producers owning assets somewhere up the supply chain for further commodity processing.**

   Example: Producers of corn and cattle become involved in producing ethanol and processing meat.

The practice of added value

To understand how the "and/or" nature of the value-added categories can be used to provide a competitive advantage, consider this simple example. A group of cattle producers wants to build a meat-processing facility (Category 5) to enhance their income by adding value to their product. They find that they need to develop a name brand and market their product (Category 1) to establish a competitive position in an industry driven by economies of scale. The five categories of added value, used in combination, can compound the income-enhancing benefit to producers.

Note that examples of real quality attributes in Category 1 above include large tomatoes and low-phytate corn rather than tomatoes and corn alone. Producing tomatoes is an example of income enhancement through alternatives to commodity agriculture. However, producing a special-size tomato to fill a niche market is an example of adding value because the tomatoes can potentially be sold at a premium by marketing to specific consumers or businesses up the supply chain.

The following are additional examples of how the five categories of value added, and other means of income enhancement, work together.

Low-phytate corn

A group of 100 producers jointly market low-phytate corn so that they have bargaining power.

Organic soybeans

Organic soybeans are toll processed for producer-owned, branded soymilk.

Organic milk

A dairy markets organic ice cream under the name "Ozark Organic Ice Cream."

Vegetable production and beef processing

A group of diversified vegetable producers and a group of beef producers market a branded beef and vegetable soup. This adds value by marketing a bundle of products.

Each of these examples is about providing producers or agribusiness with a strategic advantage in the marketplace.

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