



Agricultural Marketing Resource Center  
Value-added Agriculture Profile  
Iowa State University

**November 2007**

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## **Lesson 1: What is Value-Added Agriculture?**

*Funding was provided by the Agricultural Marketing Resource Center.*

**OBJECTIVES:**

After completion of this unit, the students will be able to:

1. List value-added activities that can be used to add value to agricultural products.
2. Describe the personal attributes required to pursue a value-added agriculture enterprise.
3. Distinguish between creating value and capturing value as it applies to value-added agriculture.
4. Compare and contrast the strategies, using real examples, between an agricultural enterprise that creates value and another that captures value.

**MATERIALS/REFERENCES NEEDED:**

1. **Adding Value to Farm Products: An Overview.** Holly Born and Janet Bachmann. ATTRA Publication #IP141. <http://attra.org/attra-pub/valueovr.html#intro>

**VISUAL MASTERS (VM):**

See V-A Lesson 01.pptx and VM Lesson 1.pptx

**INTEREST APPROACH:**

Identify a student who is an agricultural entrepreneur at the production level. Ask the class to identify the supplier, the consumer and the competition that exists within the enterprise operated by the student. How could the student capture profits from another level? What resources (finances and labor) would it take to accomplish that goal? Or, how could the student differentiate their commodity to the point that they are now creating value rather than capturing profits from another level?

**QUESTIONS:****1. What are the ways that value can be added to farm products?**

**Answer:** Cleaning and cooling, packaging, processing, distributing, cooking, combining, churning, culturing, grinding, hulling, extracting, drying, smoking, handcrafting, spinning, weaving, labeling or packaging.

**Provide some examples of how these processing methods are applied in your community, county or state to add value to agricultural commodities.**

**2. Besides food processing, what are other examples of value-added agriculture?**

**Answer:** Flower arrangements, garlic braids, grapevine wreaths, willow baskets, wheat straw weavings, sheep and goat milk soaps and wool mulch are a few examples. In addition, ideas for providing entertainment, information and other services associated with direct marketing are abundant.

**3. What are some other benefits of value-added agriculture besides capturing additional profit?**

**Answer:** Value-added products can open new markets, create recognition for a farm, expand the market season and make a positive contribution to the community. However, adding value is not a panacea for all the problems rural America is facing. It is a long-term approach, not a “quick fix.”

**4. What personal factors does require of someone who is ready to pursue a value-added agriculture enterprise?**

**Answer:** It requires the willingness and ability to take on risk, as well as adequate capital, management skills, and personal skills such as the ability to interact with the public to succeed.

**5. What is the difference between creating value and capturing value when working with agriculture products?**

**Answer:**

**A. The capturing-value strategy** usually means capturing some of the value added by processing and marketing. For example, the producer’s share of the food dollar has seen a steady decline since 1900. (3) In 2005, the average farmer’s share of the food dollar was 22 cents, down from about 33 cents in the 1970s. (4) The rest of the food dollar goes to processing, distribution and marketing. More and more, producers are attempting to increase their share of that food dollar by engaging in activities such as direct marketing to consumers, turning farm products into food products and joining producer alliances and cooperatives that invest in facilities to process their farm products on a larger scale.

**B. A created-value strategy**, on the other hand, relies on products or services that are unique or different from the mainstream equivalent. These often include a real or perceived quality attribute such as organic certification, a brand image, identification with a specific geographic region and/or producer, identity preservation, environmental stewardship and so on. Creating value can pose higher production risks than capturing value. It usually requires learning new production and marketing skills; dealing with food safety, labeling and other regulations; and

coping with liability issues and insurance

**6. What are some options for the capturing-value strategy and the created-value strategy?**

**Answer:**

**A. Capturing-value strategy:** Marketing directly to the consumer can be done on a small or large scale and in a variety of ways. Options for the producer who enjoys direct contact with consumers include selling at farmers' markets and through community-supported agriculture systems. Other options include sales directly to restaurants and local institutions, as well as mail order and Internet sales.

**B. Created-value strategy:** Demand for the innovative product or service must usually be created through advertising, promotion and consumer education, and this is a lengthy, expensive process. Marketing risks may be lower with a created-value strategy, for if this demand can be established, there is potential for higher, stable prices and little direct competition. Contract agreements for identity-preserved products such as high-lysine corn reduce competition from other producers, for example. Producers will need to learn new marketing skills, carefully assess feasibility and develop marketing plans for created-value products or services without established marketing channels.

**7. What are some differences between two enterprises which use the same raw commodity, but one enterprise seeks to capture value compared while the other one seeks to create value?**

**A. Soybean Oil Crushing (Capturing value).** The crushing plant in their example added about \$1 per bushel from the meal and oil produced. The crushing plant faced narrow profit margins and stiff competition, common challenges for captured-value ventures, where the processing and marketing risks are relatively low.

**B. Soybean Nut (Creating value).** Producing soy nuts that retailed for \$3.95 per 9-ounce package, on the other hand, adds almost \$420 of value per bushel. While the markets for soybean meal and oil are very large, the market for soy nuts, and thus the total amount of value added, is very limited. Product and market development and compliance with food safety and packaging laws all require time and money. However, for the small-volume producer who cannot compete with the large-volume producers on price, targeting niche markets with a created-value strategy offers the highest likelihood of success.

## CONCLUSION

Value-Added Agriculture involves Innovation and Coordination.

Adding value to agriculture products can be accomplished in a number of different ways, but generally falls into one of two main types: innovation or coordination. In general, the problem is to evaluate what, where, how and who can efficiently perform the marketing functions.

### Innovation

Innovation focuses on improving existing processes, procedures, products and services or creating new ones. Often, successful value-added ideas focus on very narrow, highly technical, geographically large markets where competition is sparse. Innovative value-added activities

developed on farms or at agricultural experiment stations are sources of national growth through changes either in the kind of product or in the technology of production. By encouraging innovative ideas, adding value becomes a reality.

### **Coordination**

Coordination focuses on arrangements among those that produce and market farm products. Horizontal coordination involves pooling or consolidation among individuals or companies from the same level of the food chain. An example would be hog producers combining their market hogs to make a truckload. Vertical coordination includes contracting, strategic alliances, licensing agreements and single ownership of multiple market stages in different levels of the food chain. Vertical coordination, either through ownership integration or contractual arrangements, is necessary to link production processes and product characteristics to the preferences of consumers and processors. (1)

What is Value-Added Agriculture? (2006). Kansas State University, Agricultural Economics. Mike Boland and Alena Bosse.

<http://www.agmrc.org/agmrc/business/gettingstarted/whatisvalueaddedag.htm>