



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

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Lesson 2: Why Value-Added?

Funding was provided by the Agricultural Marketing Resource Center.

OBJECTIVES:

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

1. List the reasons that farmers pursue value-added enterprises for the commodities they produce.
2. Explain the benefits of value-added agriculture to a community.
3. Describe some individual success stories in the value-added sector of agriculture.

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>
2. Food Marketing and Price Spreads: Farm to Retail Price Spreads for Individual Food Items. United States Department of Agriculture (USDA) Economic Research Service (ERS). <http://www.ers.usda.gov/Briefing/FoodPriceSpreads/spreads/table1a.htm#star>

VISUAL MASTERS (VM):

See V-A Lesson 02.ppt and VM Lesson 2.pptx.

INTEREST APPROACH:

Ask students: What percent of a typical family's budget is spent on food? Next, ask: What portion of each dollar spent on food ends up at the farm level? Discuss some of the figures below. Ask students why some farm products retain a larger share of retail price than others. Discuss how food is relatively cheap in our country and how little of a food \$ actually ends up in a farmer's hand. Choose various commodities grown in your area to determine the percentage of a food \$ that returns to your county or community. Below are some basic figures related to this subject.

Farm value share of retail price¹

	1998	1999	2000
Peanut butter, 1 lb.	26	23	22
Oatmeal regular, 42-oz. box	6	5	5
Flour, wheat, 5 lbs.	20	18	19
Sugar, 1 lb.	32	31	27
Eggs, Grade A large, 1 doz.	52	47	53
Chicken, broiler, 1 lb.	54	49	48

¹Computed from unrounded farm values. Source: Calculated by United States Department of Agriculture (USDA) Economic Research Service (ERS) based on data from government and private sources.

QUESTIONS:

1. What are some of the characteristics of farmers who pursue value-added business ventures?

Answer:

Desire: Family farmers are encouraged to have the desire to engage in value-added activities. A number of farmers who were engaged in value-added processing of commodities were interviewed in a USDA SARE (Sustainable Agriculture Research and Education) Value-added Agriculture study. All of the farmers stressed the importance of having a strong desire to do something that you love to do. All successful value-added ventures on and off the farm begin with a passion for their product. Those who engage in value-added activities just to increase income and do not have a strong desire or passion about their product will eventually run out of motivation in their search for success.

Expertise: Once a family farmer has identified a strong desire to add value to their commodities or to produce a product from their commodities, the farmer must determine how much expertise is required to successfully produce, market and distribute their products. Sole proprietor value-adding works well for farmers who are comfortable running all aspects of their value-added business and have expertise in doing their own marketing by dealing directly with customers. Most farmers have demonstrated that they can quickly gain expertise in production and distribution of their products. However, marketing activities account for the largest share of the food dollar and can contribute the most to family farm income.

Capital: The decision to engage in value-added activities almost always requires an increased need for capital. Capital is needed for a wide range of increased expenses. A very important factor that influences the direction and level of any family farm profit-seeking venture is the amount of capital available for the venture. Even though family farms in Maryland have, in general, good financial balance sheets due to the high valuation of their primary asset: land, capital in the form of cash equity is often in short supply due to the nature of farming economics. Changes in commodity production, methodology or marketing focus generally require increased capital funding for the short run in value-added activities.

Developing the Combination of Desire, Expertise and Capital

Many family farmers have come together in associations, such as LLCs and cooperatives, to pool their capital and to find marketing expertise to achieve the critical mass that is required to properly market their products. In Lee Egerstrom's landmark book, *Make No Small Plans: A Cooperative Revival for Rural America*, Mr. Egerstrom supports the concept of family farmers banding together to create bold plans to accomplish significant economic revival of rural America. Throughout America, hundreds of farm-related groups have formed associations to market their commodities and value-added products. Even though their desire is high, many family farmers do not have abundant cash reserves to capitalize profit-oriented ventures or the expertise to market their products. Any additional business activity to farming is in many cases limited to modest investment of using cash or borrowed funds and is limited to modest marketing efforts. These are significant reasons why forming family farmer associations is one of the most effective forms for increasing profitability in rural America.

2. Why add value to agricultural commodities?

Answer: Declining grain prices, federal farm policies, changing consumer choices and intense competition for agricultural commodities have created a sudden need to explore alternative production/marketing strategies.

A flurry of activities from value added cooperatives based in Great Plains region have given a clear signal that farmers are moving up the food chain. In the past, there was a clear 'disconnect' between agriculture producers and their ultimate customers, the consuming public. The middlemen harnessed most of the profits in the food chain. As a result, farmers would only receive about 1 to 2 percent return on their investment. If the farmers can move up the food chain by engaging in manufacturing and direct marketing, rather than just selling their raw commodities to a local dealership, then they would realize higher returns on their investment. Clearly there are higher profits to be made between the time a raw product is produced on the farm and it is ultimately transformed into a food product served on a plate.

Today's food consumers want taste, nutrition, freshness, variety and convenience. Ethnic populations are growing and niche markets are becoming available. By engaging in value added agriculture, farmers are expecting to increase their net farm profits that would otherwise go to the middlemen in the food chain. The value added concept transforms growers from 'price takers' to 'price makers'.

3. What are some of the challenges faced by those who want to establish a value-added agriculture enterprise?

Answer: It requires sound marketing savvy. Getting a new product into the highly competitive retail market is very difficult. USDA estimates that at least two out of every three new food products introduced into the market fail due to lack of customer appeal. Only one in five new businesses succeeds for more than five years. Failure to do market research and the lack of a sound business plan are leading causes for failure.

List the important considerations for a new food entrepreneur?

- Market Research
- Business Structure
- Business plan
- Liability
- Regulations
- Technology
- Food Safety
- Packaging Materials
- Labeling Rules
- Trade Names, Patents and Copyrights

4. Instructors: Read the Food Business Profile for the Persimmon Hill Berry Farm. Require that your students also read the profile located at <http://attra.org/attra-pub/valueovr.html#intro>. Or go to <http://www.persimmonhill.com/> to visit the Persimmon Hill Berry Farm website.

Ask your students the following questions:

What kind of crops are grown on the Persimmon Hill Berry Farm?

Blueberries, an acre of blackberries, 2,000 hardwood logs for growing shiitake mushrooms and 120 apple trees.

How did the Bohners first add value to a commodity on their farm?

The berries were initially marketed to pick-your-own customers. The added value is the experience of a day on a farm with a friendly and helpful host.

How did they add value through processing their commodities?

After considerable study, the Bohners decided to turn ripe berries into full-fruit jams, although it would spread their management thinner. They were always committed to quality and quality entails a lot of time and cost.

What are the processed products they now offer for sale?

The Bohner's processed products now account for a large share of the farm's gross income. Their processed products include their famous blueberry "Thunder Muffins," a range of jams, shiitake mushroom sauce, blueberry and other barbecue sauces, dried shiitake specialties, a blueberry slush and a cookbook.

Who did they consult to develop their shiitake mushroom sauce?

The Bohners (Ernie and Martha) worked with a chef to perfect recipes for other products such as shiitake mushroom sauce.

Which processed product helps them get through the winter months when there are fewer sales?

The Thunder Muffins carry the farm through the unprofitable winter months. The Bohners have sold as many as 1,400 Thunder Muffins in a single day.

What strategies did the Bohners use when directly marketing their products?

The Bohners have created a Christmas gift mail-order market. Previous customers and gift recipients receive a mail-order folder describing packages that will be sent directly to them. The cover of the flyer features the farm's black Labs shown watching St. Nick's sleigh heading off into the Ozark night.

How often is the business plan for the Persimmon Hill Berry Farm evaluated?

Business planning has been critical to the development of Persimmon Hill Berry Farm. Earnie Bohner tries to reorganize each January, after he reviews production and marketing records for the previous season. He adjusts long-range plans, sets goals for the next 12 months and then breaks down jobs by two-week periods. Earnie says, "In an ideal situation, I would look at these goals monthly. On a daily basis, I have a list that I carry with me that supports the overall plan."

What other resources (references and people) are used by the Bohners to improve the financial aspects of their business?

In regard to finding help for business planning, Earnie Bohner says, “SCORE has been really helpful.” (SCORE, the Service Corps of Retired Executives, is a Small Business Administration program. For more information on SCORE. They also requested the ATTRA publication [Agricultural Business Planning Templates and Resources](#).). They have had graduate students from a university business department to visit their farm. It gives a business owners (the Bohners) another perspective. They also get lots of ideas from Ron Macher’s *Small Farm Today* magazine.

CONCLUSION

After completing the lessons, ask students: Why would anyone want to pursue a Value-Added agriculture business? What are the advantages? Disadvantages? How can a community benefit from a Value-Added agriculture business? What kind of risks are involved in starting a Value-Added agriculture business? Ask students to write down two things they learned from this lesson? Ask students to share those with the class and organize a discussion based on the knowledge the students gained?