



Adding Value to Agricultural Products

Curriculum Guide

I. Goals and Objectives

- A. Understand what creates value.
- B. Learn the factors that affect value.
- C. Learn the keys to starting and maintaining a successful value-added business or enterprise.

II. Description/Highlights

- A. The economic impact of adding value beyond the farm gate is usually several times the value of agricultural production at the farm gate alone. Capturing those additional dollars or adding value to farm or ranch products is a goal for many producers.
- B. Value added is taking a raw product to, at least, the next stage of production. This can be as simple as retaining ownership of your calves through winter wheat pasture or further through a feedlot. Value can also be enhanced through membership in a cooperative that processes your products, such as a cooperative cotton gin. On the other hand, value-added may also be as elaborate as going all the way to the end consumer with a “case-ready” food product.
- C. Regardless of the value-added opportunity enterprise being explored, there are two key questions to answer in considering a value-added enterprise: (1) what is customer value, and (2) what creates value added?
- D. Customer value reflects the relationship between the benefits customers receive in relation to the price they pay for a product. The more benefits that are perceived relative to the price, the more customer value increases. This interaction creates customer value and, thus, the opportunity to add value to your product.
- E. One must bear in mind that it is the customers’ perception of value, not the producers’, that is critical. Consider the case of pre-conditioning calves. Does the cattle buyer perceive the pre-conditioning program as adding value? That is, will the buyer pay more for pre-conditioned calves, enough to cover the added costs of pre-conditioning, than other calves?
- F. It is also important to recognize that different customers have different value-added perceptions. These perceptions correspond directly to the differing expectations regarding quality, service, convenience, and selection factors.

- G. Value is usually created by focusing on the benefits associated with the agribusiness product or service that arise from: quality, functionality, form, place, time, and ease of possession. Review these characteristics. Remember that a product is simply a bundle of benefits and that value is added when this package or bundle of benefits synergistically increases the actual or perceived benefits associated with the physical product or service.
- H. Many factors affect value-added. Consumer tastes and preferences have changed drastically over the years. Consumers have higher incomes than ever before and are focusing more on convenience, quality, variety, service, health, and social consciousness. They are also faced with the increasing value of (and demand for) their time.
- I. To take advantage of value-added opportunities, one must thoroughly attempt to know and understand customers. Identify the segment of the market you are targeting, the benefits desired by these potential customers, and what criteria they are looking for when purchasing.
- J. Any business enterprise can be thought of as a value chain. Each activity that is performed should add value to the product. In order to do this, one must meticulously control the intricate activities at each link or step in the value chain.
- K. These key factors for a successful value-added business strategy are usually included in a detailed business plan and include: an operations plan, personnel plan, sales plan, management plan, and investment and financial plan.
- L. Review the examples of value-added agricultural products.. These products include wheat, woody products, and fed beef. A recent survey of value-added companies indicated an average return on assets of 63%
- M. To start a successful value-added business, you must be able to adapt to market changes, be open to exploring new ideas, operate more as a resource manager than a producer, realize the importance of networking and the need to develop alliances.

III. Potential Speakers

- A. Extension economist
- B. Successful value-added business owners

IV. Review Questions

- A. Describe “customer value.”

Answer: Customer value is the relationship between the price paid for a product or service and the benefits customers receive in return. The more benefits received relative to the price, the more customer value increases.

V. For More Details

There are numerous web sites with value-added information. A few of these are:

Opportunities for Adding Value to Your Products
ag.arizona.edu/arec/pubs/dmkt/dmkt.html

Horticultural Alternatives for Texas Agriculture
aggie-horticulture.tamu.edu/alternatives

Resource List for Marketing Alternative Crops
www.ianr.unl.edu/pubs/horticulture/nf107.htm

Potential Value-added Food Product Groups: Marketing And Production Opportunities
For High-end Consumer Food Products
agecon.lib.umn.edu/ndsu/aer419.pdf

Entrepreneur Magazine
www.entrepreneur.com

Alternative Farming Systems Information Center
www.nal.usda.gov/afsic/

Appropriate Technology Transfer for Rural Areas
www.attra.org

The Farmer's Guide to the Internet
www.rural.org/favorites.html

Adding Value to Farm Products: An Overview
www.attra.org/attra-pub/valueovr.html



● Basics of Value-Added

- ☞ Value-added impact vs. farm gate value
- ☞ Next stage of production
- ☞ Examples of value-added:
 - ! Retained ownership of calves
 - ! Value enhancement via cooperatives
 - ! Case-ready food product

! Customer Value

- ☞ Customer benefits versus product/service price
- ☞ The more benefits received relative to price, the more customer value increases
- ☞ Customer's perception of value
- ☞ Not the producer's perception of value
- ☞ Low price, greater value? Not necessarily
- ☞ Everyone perceives value differently



! Product Benefits Arise From

- ☞ Quality - Does the product or service have the “right” quality that meets or exceeds customer expectations?
- ☞ Functionality - Does it provide the function needed of it?
- ☞ Form - Is the product in a useful form?
- ☞ Place - Is the product in the right place?
- ☞ Time - Is the product in the right place at the right time?
- ☞ Ease of Possession - Is the product easy for the customer to obtain?



! Other Factors Affecting Value-added

- ☞ Consumer tastes and preferences
- ☞ Higher incomes
- ☞ Convenience, quality, variety
- ☞ Service, health, social, consciousness
- ☞ Demand for their time

! Keys to Success

- ☞ Identify your market segment
- ☞ Know your customers
- ☞ Identify the benefits potential customers desire
- ☞ Identify customer purchasing criteria
- ☞ Each business enterprise is a value chain
- ☞ Adding value to the product

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! Keys to Success (continued)

- ☞ Develop a business plan
 - ! Operations plan
 - ! Personnel plan
 - ! Sales plan
 - ! Management plan
 - ! Investment and financial plan

! Examples of Value-Added Products

- ☞ Wheat
 - ! Feed products
 - ! Wheat straw and building materials
 - ! Graze wheat
 - ! Convert to organic foods

- ☞ Woody plants (cedar/mesquite)
 - ! Cedar fiber: boards and recap oil wells
 - ! Mesquite: boards, jewelry boxes, lawn furniture, floor molding
 - ! Sawdust: fiberboard



! Examples of Value-Added Products (continued)

☞ Fed Beef Industry

- ! Retained ownership
- ! Specialty products: sausage, tamales, menudo, and tripas

! Summary

- ☞ Adapt to market changes
- ☞ Be open-minded
- ☞ Think as a resource manager
- ☞ Develop alliances