Adding Value

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 by which a producer captures a larger portion of the existing value or creates additional value in a product.

Categories of added value
There are essentially five ways for producers to add value to an agricultural enterprise. Often a combination of these categories is used to add 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 farmer markets an “Ozark brand” of cheese to create consumer perception of dairy farming in the beautiful Ozark mountains.

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.


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

4. Producing and marketing a commodity that improves operating efficiency further along the supply chain.

   Example: Producers use a new wheat variety that improves milling and baking efficiency so that processors up the marketing chain are willing to pay a higher farm price.

5. Producers owning assets further along the supply chain for commodity processing.

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

The practice of adding value
To understand how a combination of value-added categories can be used to provide a competitive advantage, consider this simple example. A group of cattle producers want 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 that is 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 further along 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 enough size and scale to create bargaining power.

• **Organic soybeans**
  Organic soybeans are toll processed to create a producer-owned, branded soymilk product.

• **Organic milk**
  A dairy producer 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 an agribusiness with a unique position or a strategic advantage in the marketplace.