As co-director of the Missouri Value-Added Development Center, I have decided to share some of the things I’ve learned about value-added agriculture. While the list could be much longer, here are ten things I’ve learned.

1. **Don’t start with the product.** Everyone may love Mom’s jelly, but that doesn’t mean customers are willing to pay a premium to get it and it’s nearly impossible to compete on price with Smucker’s®. If customers don’t recognize the benefits of a product or are not willing to pay for the benefits, you probably won’t be successful selling the product. Value-added businesses tend to be more successful if you first identify the customers (or niche market) and find out what they desire. Then produce the products or quality characteristics they want and are willing to pay for.

2. **A business goal is better than a noble mission.** While locally grown products or organic production may offer community benefits or contribute to a healthy environment, it doesn’t necessarily supply the food needs desired by everyone. It is a much better approach to identify customers who seek organic or local products and then sell them what they desire at a premium price.

I observed an example of this at a national value-added meeting. The featured speaker was the president of an organic milk company. However, instead of going over the many benefits and virtues of the product and how it contributed to health, society and the environment, he explained their business strategy. They recognized that only a small percentage of milk users had a preference or willingness to pay a premium for their organic product. However, regionally or nationally, this small percentage represented a sizeable market and that was their target. They weren’t out to convert people; their goal was to sell to the target market at a premium price. Their business was expanding rapidly.

3. **Don’t forget that you are your own customer.** A common misconception when farmers look to value added enterprises is thinking it gives them more for their farm production. The objective is not to get more for your corn (soybeans, cattle, etc.). It is to profit from processing it into something else. If your processing company pays you more for your farm products than its competition pays for the same product, your value-added business may not be competitive or profitable. The objective is to have a profitable enterprise that will add to family income, not get higher farm prices.

4. **Market feasibility studies and business plans are important.** Marketing processed products is entirely different than selling commodities in a transparent commodity market. A market must be identified and products targeted to the demands of the market. A market feasibility study is critical to accomplishing this. Business plans help identify management and financial needs of the business. Completing a business plan not only provides a road map for the business to succeed, but helps convince lenders to provide necessary financing.

5. **It takes time.**
   - Time to raise money to finance the business
   - Time to do market feasibility studies and business plans
   - Time to construct facilities
   - Time to start up operations and begin delivering products
   - Time to correct mistakes
   - Time to become established in the market

Some very successful value-added enterprises have taken 20 years or more to become successful in developing their processing systems, marketing their products, developing a customer base and providing service to their customers.
6. **It takes money.** Raising equity is a major effort, especially for larger group projects with sizeable capital investment required. New enterprises need more than just equity capital; they also need adequate working capital or startup money. Working capital is usually critical to survive the start-up and initial production phases of the operation.

What about grants? It is important to understand that, while many promote them, grants don’t usually provide easy money. They are usually targeted for specific objectives and usually can’t be used for construction or equipment. However, some may offer funds for business start-up activities or doing feasibility studies.

7. **It takes persistence.** Most projects suffer through several set backs, disappointments and unexpected problems or unfamiliar barriers. Each project needs dedicated leaders or champions to stick with it through difficult times.

8. **Management is expensive, but don’t be cheap!** Large projects nearly always require experienced management that demands significant compensation and they should be hired early on to insure construction and beginning operations are done correctly. Even smaller value-added enterprise may need management assistance. Management of a new business operation is demanding and time consuming. There have been examples of value-added enterprises that were originally successful, but the management demands become too great and took too much time away from the farming operation and family activities, so the value-added business was abandoned.

9. **Attorneys and consultants aren’t all bad.** Legal, marketing and production expertise are essential to success. Business organization and startup requires complex arrangements and documents that only attorneys should prepare. Marketing and business consultants can help avoid many costly mistakes while improving the chances for new business success.

10. **Value-added investments don’t make managing the farm easier or more profitable.** The value-added business should generate profits, but it is a separate activity from the farm production enterprises. Farm profits still depend upon good farm financial and production management. In addition, while the value-added business provides a market for the farm production, it is still up to the farm manager to manage commodity marketing and production risks.