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 farmland in a conservation program, leasing farmland 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.

3. Bundling products.

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 Added 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.

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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.

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