Ag Decision Maker

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Should You Participate in Value-Added Agriculture?

Value-added agriculture has been touted as the solution to the problems facing farmers and rural residents. People promoting value-added agriculture claim that it will increase income and reduce financial stress in the farm sector and lead to the revitalization of rural communities. However, for a farm family suffering from low income and rural communities suffering from the loss of economic vitality, value-added agriculture may not be a panacea. So, should you participate in value-added agriculture or stick with traditional farming? The following discussion will shed light on the topic.

Long-range solution

Value-added agriculture's potential lies in creating long-term solutions rather than short-term fixes. It contains the elements for solving many of the problems facing farmers and rural America over the coming decades. It allows for an increase in the amount of income flowing into the pockets of farmers and rural residents. By doing so, production agriculture will rely on market forces and move away from the annual infusions of money from the federal government.

It allows you to move away from the "Pac Man" growth strategy so common in farming in recent decades. This is a growth strategy where farmers gobble-up neighboring farms. This results in fewer farmers and smaller rural communities.

Value-added agriculture provides an alternative growth strategy that allows you the opportunity to expand by moving upward in the food chain rather than expanding horizontally. This opportunity is available because the food supply chain is becoming more integrated. By moving aggressively, farmers have the opportunity to play a role in the development of this new integrated system. This opportunity will provide farmers a greater role in the ownership and control of the new system.

However, because of its long-range focus, it takes time to implement. If you are considering any of the value-added opportunities that are available, you must remember that it may take a considerable amount of time before the benefits from these value-added activities are received. So, if you are expecting value-added agriculture to be a silver bullet that will provide a quick fix for the problems you are facing, you will probably be disappointed.

Capital required

A major ingredient for many value-added businesses is money. This is especially true for value-added business ventures where farmers commit commodities (corn, soybeans, hogs) for processing. These processing facilities are usually capital intensive. Although the potential payoff from these ventures can be significant, there are many value-added business ventures where the payoff has been low, and some that have failed. So, if capital is limited, you must determine whether your limited capital will yield a greater return by investing in your farm business, investing in a value-added business venture or some of both. This will require a careful risk/reward analysis on your part.

New skills required

New skill sets are required if you are going to participate in new value-added business ventures. Whether it is producing organic foods, growing specialty grains, or processing agricultural commodities, you will need to develop a whole new set of skills that are not commonly used in commodity agriculture.

New production skills are needed in the production of value-added crops and livestock. For example, preserving the identity of crops and livestock, certifying the quality of crops and livestock (ie. ISO 9000) and keeping detailed records on the production, handling, storage and marketing of crops and livestock are practices and procedures in which commodity producers usually don't participate.

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In addition to new production skills, new business skills are also needed. Creating and operating a value-added business venture is different than most farm businesses. For example, marketing a food product is much different than marketing a commodity. Product marketing involves identifying customers, designing and implementing a promotional plan, pricing your product, identifying and analyzing competitors and a host of other activities. You also will be involved in conducting feasibility studies and designing and implementing business plans.

Other skills involve human relationships. As you move from commodity production to value-added activities, relationships with others become more important. Value-added activities often involve groups who work together to accomplish business objectives. Teamwork, communications and conflict management skills become more important. Working with customers, employees, producers, distributors, processors and others are important to your success.

From working with value-added groups, I have assembled the following list of skills that are important for successful value-added business development:

- Leadership
- Entrepreneurial
- Decision making
- Business management
- Teamwork
- Strategic management
- Negotiation
- Financial and risk management
- Time management
- Marketing/selling
- Communication
- Organization and planning
- Conflict management
- Public relations
- Inter-personal
- Personnel management
- Stress management

Developing and honing these new skills can only be accomplished gradually over a period of time. But the payoff can be great. Individuals who develop these skills will have an advantage in creating and maintaining successful value-added business ventures.

The illusion of prosperity

Don't get caught in the illusion that things are getting better when they are not. Higher prices and/or yields generated over a broad geographic area are often capitalized into higher cash rental rates and land values. Although this rewards the farm owner, the farm operator is often no better off. For example, value-added corn processing that raises the price of corn in northwest Iowa may provide little long-term benefit for farm operators.

You should focus on value-added business ventures where you not only capture more income but also retain these income levels over the long-term. These business opportunities are difficult to identify and capture. They may require capital, new skills and commitment. But the long-term rewards may be great.

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