Agricultural Development Center

Agricultural Extension Service
The University of Tennessee

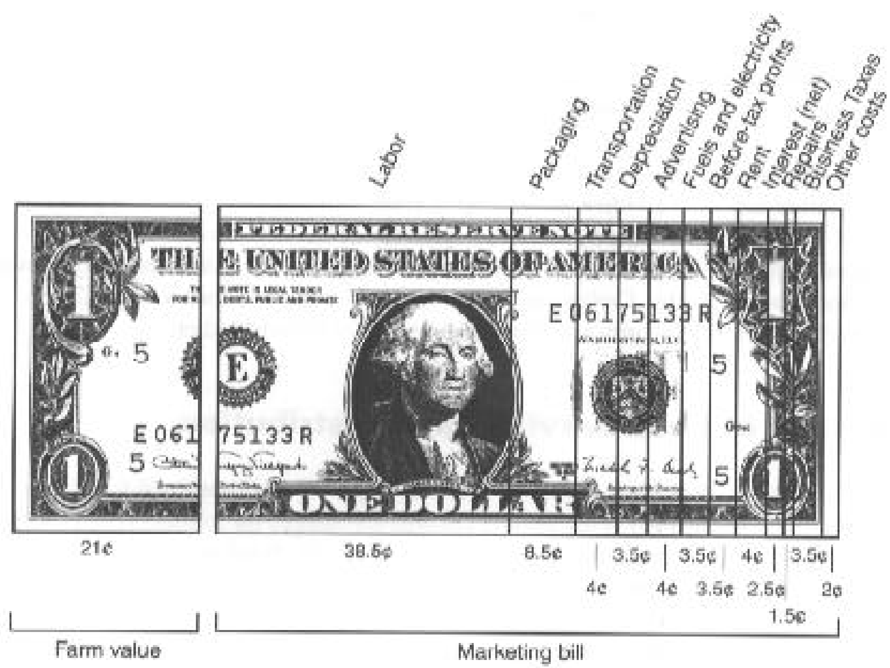
ADC Info #31 **VALUE-ADDED OPPORTUNITIES** March 1999

Tennessee farmers are now more apt to consider new enterprises, activities and procedures than ever before. While Tennessee agricultural production alone generates approximately 2.5 billion annually in farm cash receipts, the farmer has not been especially well-paid for their efforts recently. In 1997, on average, Tennessee farmers returned a net income of a whopping $2,018.68 per farm.

One reason for this low net return is that the farmer’s share of each dollar the consumer spends on food has been steadily decreasing. Approximately 21 cents of every dollar spent in a grocery store makes it back to the farm today. For food items purchased at fast-food outlets and restaurants, the farmer’s portion slips much lower to less than $0.12.

In 1997, consumers spent $561 billion on food items in the United States. Of that, the farmer received $120 million or 21%. Primarily as a result of the rising costs of labor, transportation, packaging, food services and other marketing inputs, the cost for marketing farm foods has increased greatly over the years. In 1987, the cost of marketing food beyond the farm gate was approximately $285 billion but increased by 55% over the next decade. An average break-down of what a dollar spent on food in 1997 paid for is depicted in the following chart.

Figure 1-8.
What a dollar spent for food paid for in 1997

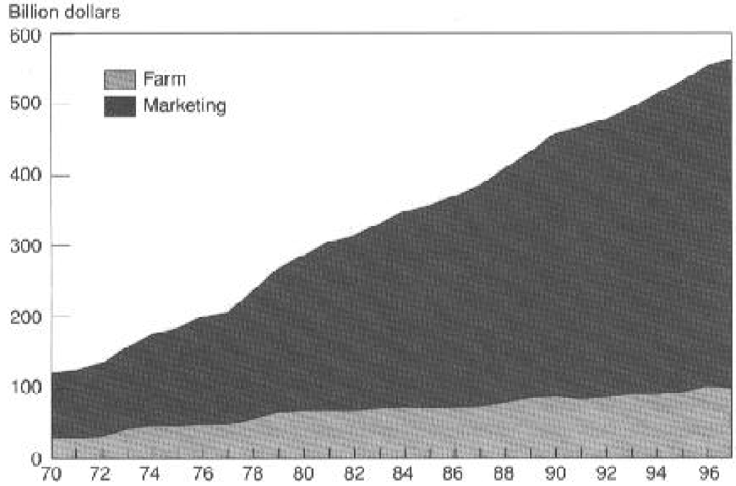


The difference (spread) in the prices that farmers receive for their production and the price that consumers pay at the retail level is referred to as the farm-retail price spread. Over the years, the general trend in the difference in these prices has grown (see next chart). Farm receipts have tended steady to lower while retail prices have tended upward with inflation, and in some instances faster than inflation. An underlying principle of the farm share for food items is that the more processing performed on a product before it reaches the retail level, the smaller the farm share. For example fresh eggs require little processing and have a higher farm share than bakery products which require a great deal of processing.

Figure 1-9.

Distribution of food expenditures

The marketing bill is 79 percent of 1997 food expenditures



Because of the increasing farm-retail price spread, the importance of value-added agriculture grows every year. The value-added to agricultural products beyond the farm gate has greatly outpaced the value of raw agricultural goods since 1950. Therefore, many farmers are now evaluating ways to add value to their commodities in order to capture some of the value that is being added beyond the farm gate.

"Value-added" is one of today's most common buzz-words in agriculture. While value-added agriculture may be defined as the result of an act that adds value to agriculture related goods and services, an act that results in a value-added product for one person may not constitute value-added for another. Often, value can be added to agricultural items by processing, packaging and marketing. At the farm level, value may be added by retaining ownership of an item beyond the commodity stage thereby increasing the value of the item by further processing, packaging or marketing. Value-added agriculture may convert items into products of greater value, increase the economic value of a commodity or increase the consumer appeal of agricultural products. Adding value is doing more of the preparation of a product/commodity for the consumer than was done before.

So, many farmers are looking for ways that they can "add value" to their production in order to increase the proportion of the consumer's dollar that they capture. Some examples of opportunities for income improvement through adding value to agricultural commodities are listed below.

- ✓ A strawberry grower can "add-value" to their strawberries by manufacturing their own special recipe strawberry preserves.
- ✓ A pepper grower who processes a special hot sauce and hot salsa can "add-value" to the raw commodity.
- ✓ A poultry grower who bags his poultry waste compost and markets it as an "organic soil conditioner" can add value to the farm waste.
- ✓ A swine producer who opens his own retail "butcher shop" can "add value" by selling cuts of meat to the consumer rather than live hogs to a packer.

There is, however, a delicate "balance" between what it cost to "add value" and what the market will bear for the product. The venture will only be profitable if the price received is greater than the cost for production, operation and marketing. The concept of value-added agriculture is an attempt to capture or obtain part of the marketing bill shown in the first chart. As the farm share of the retail dollar spent on food shrinks, farmers look for ways to obtain a portion of that which is growing. Therefore, value-added agricultural ideas consider processing, packaging and marketing items in ways that increase the farm value.