

Signals of Success

More Farmers Direct Market while Center Identifies Success Factors and Develops Educational Tools

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Through various partnerships and cooperative efforts, UT Extension's *Center for Profitable Agriculture* has been leading educational and enterprise evaluation efforts in value-added agriculture since 1998. Specialists in the Center have conducted more than 250 outreach programs across Tennessee and throughout the southeast. The Center has developed numerous educational resources to assist farmers and agri-entrepreneurs in the



consideration, evaluation, planning and development of value-added enterprises. In addition, the Center has received more than \$1.2 million in external funding to support some 14 priority program initiatives. Since its inception, the Center has focused its efforts on enhancing Tennessee's agriculture by assisting in the evaluation and development of value-added enterprises and activities.

Although the definition of value-added agriculture varies, an acceptable description includes processing, packaging and marketing agriculture commodities and farm resources in ways that allow farmers to benefit by receiving a greater amount of the economic value returned to their farm commodities and

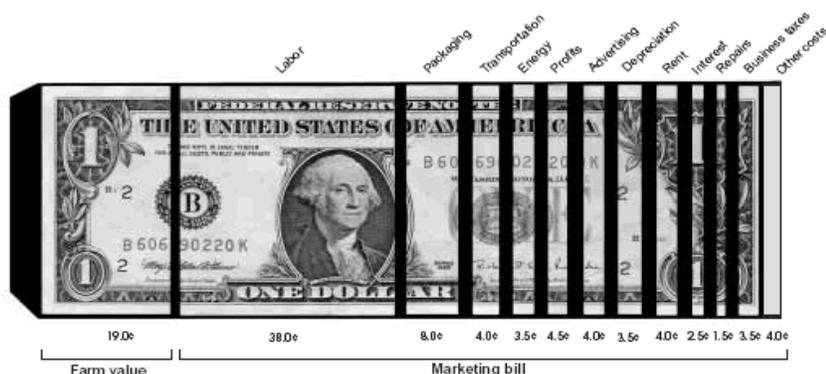
resources. Adding value is the process of converting agriculture commodities and farm resources into products of greater value, increasing the economic value of an agricultural commodity or the process of increasing the consumer appeal of a commodity.

Tennessee farmers may add value to apples by processing, packaging and marketing apple cider, apple jelly and apple butter. Dairy farmers may add value by processing and bottling milk. Livestock farmers may add value by composting farm wastes and marketing a packaged soil conditioner product. Many farmers may add value by selling commodities direct to consumers.

Figure 1 is often used to describe how value-added enterprises compare to traditional commodity-enterprises. Of each dollar spent on food in the U. S., an average of 19 cents makes it back to the farm level while 81 cents goes to support activities beyond the farm – these activities include processing labor, packaging, transportation, advertising and interest.

With a value-added enterprise, farmers take control of additional activities that might allow them to capture more than 19 cents of consumer spending. For example, a dairy farmer who receives an average of 19 cents from each consumer dollar spent on milk might add value by homogenizing, pasteurizing, bottling and marketing milk directly to consumers from an on-farm creamery. In this case, the farmer would attempt to move from receiving 19 cents to receiving 100 percent of each dollar spent on milk.

Figure 1. Farm Portion of Consumer Expenditures on Food



Source: USDA's Economic Research Service.

Census Shows More Farmers Add Value

The 2002 Agricultural Census shows that the number of Tennessee farmers participating in direct farm sales to consumers increased by 698 farmers between 1997 and 2002. This 25.9 percent increase in the number of Tennessee farmers involved in value-added agriculture through direct marketing was paralleled by a 34 percent increase in the total value of agricultural products sold directly to consumers. That is, in 1997, the value of agricultural products sold by Tennessee farmers direct to consumers was \$8,380,000 and in 2002 the value was up to \$11,227,000.

In recent years, an increased number of Tennessee farmers have been interested in considering new enterprises, activities and procedures to generate income. While Tennessee agricultural production generated some \$1.9 billion in 2002, each of Tennessee's 87,587 farmers generated an average net cash farm income of \$4,185. While a net cash income in 2002 of just over \$4,100 may be considered extremely low, it is up from \$3,446 in 1997.

From a national perspective, the Census shows that the value of agricultural products sold directly by farmers to consumers in the U.S. increased from \$591.8 million in 1997 to \$812.2 million in 2002 which is a 37.2 percent increase. Over the same period the number of farmers selling directly to consumers increased by 5.5 percent.

The 2002 Agriculture Census also reported that 81 Tennessee farms generated \$637,000 in sales of certified organically-produced commodities.

Center Identifies Success Factors

While the number of Tennessee farmers marketing directly to consumers has increased in recent years, not every farm operation can be successful at it. Even though direct marketing allows farmers to obtain a larger portion of consumer expenditures, more than a commodity is needed to be a successful value-added enterprise. A unique and balanced production-marketing strategy is not always well understood. This is often because the

value-added production-marketing scenario is more complex than the traditional commodity system. Successful, traditional-commodity operations have worked diligently to achieve goals of high yields with low costs. However, personality skills, relationships, quality end-products, customer service, market development and new regulations have been identified as critical factors for many value-added business ventures.

We in the Center have found that developing a marketable product is essential for value-added enterprises – but not sufficient to alone lead to success. Getting products to the market, selling a large enough volume at a price high enough to turn a profit is what value-added entrepreneurs face as they move from an idea to a profitable venture. Technology, risk, markets, regulations and capital are all keys to success, but it is ultimately about people – people who develop and deliver products and people who demand products.

Our Center's work in value-added agriculture can be described as evolutionary more than revolutionary – and so it is at the farm level too. Those involved with value-added activities are learning and adjusting their efforts as they observe the success and failures of others.



Oftentimes, the goal of value-added enterprises is to retain control of a commodity through additional processing to gain more direct access to markets and ultimately to the greater portion of consumer expenditures. In most cases, success is not totally defined by a single variable. While the definition of a successful value-added enterprise indeed varies from farm to farm, it normally includes a combination of profit, building wealth, stability and family values. Similarly, the path to success rarely stems from the simple availability of a farm commodity. Successful value-added enterprises often develop from a unique combination of resources that foster development of products, development of markets and satisfy a demand.

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While marketing directly to consumers has seen growth, not every direct marketing idea will automatically be a success. Direct marketing and value-added farm activities allow farmers to retain a larger portion of consumer expenditures, but the elements needed to make the strategy a success are often not completely understood.

With many interesting and exciting value-added success stories exists many not-so successful ideas. We have found that as farmers venture into value-added enterprises, the business environment is more of a small business industry than a traditional production agriculture industry. One specific issue that this raises involves the high failure of new small businesses. About 75 percent of small businesses fail in their first year and only about half will succeed beyond the fifth year of operation. In the Center, we try to identify some of the subtle and unique factors that contribute to business success.

We find that many times, value-added enterprises require more time, money, labor and energy than originally thought.

Our work with value-added enterprises over the years has allowed us the opportunity to

experience and identify a number of factors that contribute to or are necessary for overall success – a list of 12 is given below (in no particular order):

1. A unique combination of resources
2. Labor management skills
3. Ability to adapt to many new regulations
4. Organizational management skills
5. Strong financial position
6. Commitment to the long-term
7. People skills and marketing savvy
8. Business growth over 8 years or more
9. Ability to manage and maintain cash flow
10. Quality control
11. Large volume of output
12. Significant marketing costs

Educational Resource Tools Available

Since 1998, the CPA has been developing educational resources and tools to assist farmers and agri-entrepreneurs in the evaluation and development of value-added ideas. In addition, Specialists in the Center work everyday developing analyses and plans for Tennessee farmers with specific value-added ideas.

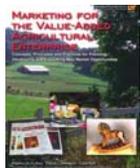
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Our educational materials are not developed as step-by-step guides to success. We have found no such “cookie cutters” or “recipes for guaranteed success” exist. Many of the educational resources developed by the Center are not intended as how-to guides on starting value-added enterprises. Rather, most of our educational materials provide guidelines for evaluating available resources in comparison with market needs. Some resources help stimulate ideas and assist in identifying unique factors behind successes and failures of other businesses. Direct marketing has been identified as a successful and sustainable alternative marketing method for

traditional commodity markets.

Some of the educational resources developed by the Center are featured below – all are available on the Center’s website <http://cpa.utk.edu>:

Marketing for the Value-Added Agriculture Enterprise - - (PB 1699)



Adding Value to Tennessee Agriculture Through Commercial Food-Processing Enterprises

- - (PB 1710)

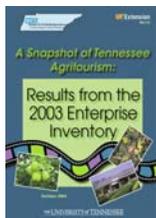


How to Get Value-Added Products into Local Grocery Stores - - (PB 1719)



A Snapshot of Tennessee Agritourism: Results from the 2003 Enterprise Inventory

- - (PB 1747)



Evaluating the Potential of Success for Value-Added Products - - (WO-40)



Market Development for Specialty Crops: An Evaluation of Potential Opportunities for Tennessee's Grape and

Wine Industry



Using Case Studies to Enhance Success



Considerations for Membership/Investment in a Processing Cooperative - - (PB 1750)



Summary

In conjunction with the evident growth of value-added agriculture and direct marketing activities in Tennessee, the Center remains proactive, conducting educational programs and developing informational materials to enhance Tennessee’s value-added agriculture.

Since more than a commodity is needed for a farmer to be successful in a value-added enterprise, the Center can play an integral role in providing the information, tools and resources needed to assist in the planning, evaluation and development of value-added ideas.

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