STRATEGIES FOR DEVELOPING SOUND VALUE-ADDED ENTERPRISES FOR SMALL FARMERS

Tubene,* S.L.[1]

1. Associate Professor and Small Farm Specialist, University of Maryland Eastern Shore (UMES), Princess Anne, Maryland 21853

Introduction

Since the last decade, U.S. Agriculture has experienced major structural changes which include a decrease in the number of small farmers, an increase in acreage of large farms; and an increasing concentration of processing firms, and vertically integrated agribusiness firms (Tubene, 2001). As discussed by Cowan (2002), vertically integrated agribusiness firms have, in the last decade, synchronized most stages of production from seed production to food supply. In fact, eating away from home, modernization, and convenience have shifted the bulk of food processing from home to food processing facilities, affecting somehow the U.S. agricultural structure.

While small farmers are still competing for available markets, large farmers, and agribusiness firms enjoy a lion share of the marketing margin. As price-takers, small farmers have to become creative. They have to create new strategies that could increase marketing margin. The development of innovative enterprises (such as the production and marketing of high-value crops, dried flowers, processed dried herbs, goat cheese, and smoked fish) is influenced by various parameters including a well-designed business plan, the adoption of an appropriate technology, access to financial, and human resources, the knowledge of the market and consumers' tastes and preferences.

This paper explores strategies small farmers, agricultural entrepreneurs and professionals could utilize to develop value-added enterprises. In addition, it provides valuable information aimed at starting an intelligible conversation which could eventually lead to practical solutions for small farmers. This information encompasses a wide range of topics ranging from factors affecting the development of innovative ventures to efficient strategies for developing and managing value-added enterprises. Research methods used to conduct this study include literature review, farmers' focus group discussion, and researcher's experience.

Factors Affecting the Development of Innovative Ventures

Value-added enterprise is defined as an activity that enhances value to a commodity or product as a result of change in its physical state. Factors that affect the development of innovative ventures include U.S. agricultural and demographic changes, small farmers' market structure, product creation, starting capital, and consumers' tastes and preferences. These factors, which are discussed below, serve as a guideline for developing innovative business concepts.

U.S. Demographic and Agricultural Trends

Since 1990, U.S. has experienced significant agricultural and demographic trends. Tubene (2005) argues that U.S. population has become more diverse since 1990, showing a significant increase in ethnic and minority groups. While the Native American population has more than doubled (110%) since 1990; American Asians, Hispanics, and African-Americans have increased by 64 percent, 55 percent, and 22 percent respectively.

In terms of U.S. agriculture, changes have occurred along states and regions line. For instance, mid-Atlantic farms and farmland, agriculture cash patterns, and crop production have experienced significant trends. While the number of farms and farmland has declined since 1987, agricultural cash sales have increased in the past 10 years in the mid-Atlantic region. In addition, agricultural industries such as nurseries and greenhouses have experienced the fastest growth whereas crops such as tobacco have drastically declined (Tubene, 2001 and 2005).

Additional U.S. agricultural trends are related to food and marketing bills. According to Drummond, and Goodwin (2002), American consumers spent $925 billion on food in 2000. This food bill accounted for approximately 47 percent, 53 percent, and 10 percent away from home, food at home, and alcoholic beverage expenditures respectively. Most importantly, the food marketing bill, which is the portion of the food bill that is created by the marketing system accounted for $537.8 billion in 2000. This implies that out of $925 billion representing the food bill, only $387 billion went to farmers.

Small farmers could capitalize on demographic and agricultural structural changes to develop new ideas could be translated into innovative value-added business opportunities.

Farm Typology and Market Structure

U.S. small farmers struggle to keep up with economic and technological changes that have affected the U.S. agricultural industry since the last decade. According to Hoppe and MacDonald (2001), small farms, on average, are less viable business than large farms. In fact, high-sales small farms and large family farms receive a larger share of government payments than small farmers. Additionally, small farm household rely heavily on off-farm income.

Since small farmers operate in a purely competitive market, they are price takers and have no market power as opposed to large farmers who might be monopolistically competitive or oligopolists. Being price takers, small farmers could set themselves apart from other (typical) farmers by differentiating their products through appropriate grading, packaging, and labeling. Product differentiation would require some innovation and creativity from farmers.

Demand for Value-Added Products

Demand can be defined as the quantity of products consumers are willing and able to purchase at various prices. The demand for a product is determined by various factors including consumer's income, price of related products (i.e., complements and substitutes), consumers' tastes and preferences, number of buyers, and expectation of the future.

In general, food is an inferior good; meaning that as people's income increases, their demand for food does not increase substantially. Value-added products are however, normal goods. By definition, as income increases, consumers buy more of normal goods.

Demand for value-added products could be significantly influenced by consumers' income; and tastes and preferences such as lifestyle, health concern, and demographic diversity. A positive trend in these variables will positively influence the demand for value-added products.

Product Creation

A successful entrepreneur researches consumer and market preferences and responds to the needs. As less food is processed at home, adding value to agricultural commodities could be rewarding for small farmers. U.S. consumers have drastically changed their lifestyle since the turn of the century. Changes range from long working hours to long commute, and demand for convenience and service.

Food processors, agribusiness, and marketing firms command a large share of the food bill whereas farmers receive a smaller portion of the food bill. By creating new products, small farmers could increase their marketing margin potential and thus, increase their income.

To become successful, small farmers are to use these consumers' attributes and preferences and design products which fit the twenty first century's life style.

Value-Added Starting Capital

Small farmers face many challenges in the areas of production, marketing, finance and business management. Starting small and expanding business operations over time could help alleviate some challenges. Financial challenge could be overcome by developing a business plan. A business plan will help the business owner think and write on mission, vision, goals, and objectives of the firm. In addition, a business plan will specify funding resources, production and marketing plans.

Starting capital can be raised in various ways including business owner's personal savings, loans and grants. While loans have to be paid back with interest, grants are not repaid. Grants could be a significant source of funds in the early stage of business implementation.

Government Regulation and Food Safety

Local, state and federal laws on food safety are intended to protect food producers and consumers. U.S. States have rules and regulations that govern food handling and processing. Federal, state, and municipal laws can be complex and frustrating. Business owners should avoid costly law suits by complying with federal and state laws and by purchasing adequate liability insurances.

Developing Innovative Ventures

How to Develop New Ideas

Strategies used to generate new ideas for value-added business opportunities are trade shows, county fairs, Cooperative Extension seminars, focus groups, field trips, and own research.

- **Trade Shows.** Trade shows constitute a good opportunity for small farmers to network with other farmers and learn latest discovery and inventions in the industry.
- **County Fairs.** County fairs display new products and innovations that the county has to offer. By visiting and interacting with display owners, small farmers will be exposed to new ideas and may discover new business opportunities.
- **Cooperative Extension Seminars**. Workshops and seminars organized by local Cooperative Extension offices in collaboration with Extension Specialists and County Agents could be a valuable education tool for small farmers. In fact, by talking and asking questions directly to the experts, new ideas can be generated and possibly turned into real value-added business opportunities.
- **Focus Groups.** Value-added enterprise ideas can be gathered through focus groups. Farmers, friends, lenders, and other experts in the field meet to brainstorm on new ideas conducive to potential value-added business opportunities.
- **Field Visits.** Field visits allow small farmers to travel to the sites where products are produced and/or sold. Examples of field visits could be traveling to the farm where goat cheese is produced, or simply visiting a specialty grocery store in town. Potential sites can be discovered by surfing the Internet or by looking into a phonebook. New ideas will be generated by visiting these facilities and exchanging ideas with the business owners.

- **Own Research.** Reading relevant literature such as agricultural and food magazines, trade journals, and local newspapers could help generate new ideas. In addition, new ideas could be gathered by surfing the Web where success stories could be inspiring for small farmers seeking for innovative value-added business opportunities.

Potential Value-Added Products

As described in Table 1, value-added products encompass a wide variety of products including processed flowers, dried fruits and herbs, decoration products, meat and fish products.

Table 1. Value-Added Products

Product	Value-added product
Flowers	Cut flowers, dried flowers, diverse decorative flower baskets, derived flower products
Herbs	Whole and processed dried herbs; Value-added products engineered from herbal products (i.e., soaps, lotions, and oils)
Wine grapes	Wine and wine grape products such as jam, jelly, and wine-flavored chocolates
Fruits and vegetables	Dried, canned, and frozen fruit and vegetable products
Mushrooms	Dried mushrooms
Tree and wood	Decorative crafts made from trees and woods
Decorative products	Dried decorative products including fruits, gourds, and wreaths.
Various farm products	Farm products that can be produced as value-added enterprises are free range chicken and eggs; pastured lamb and beef.
Fish and meat	Dried, smoked, salt fish; dried and smoked beef and poultry; caned fish and beef; and sausages.

Source: Adapted from Kantor (19990). www.agroforestry.net/overstory/overstory63.html

Strategies for Value-Added Enterprises

An efficient entrepreneur must not only be willing to take risk but also be able to manage risk. Risk in agriculture arises mainly from the biological nature of the agricultural production. Additional risks encountered by farmers include marketing, financial, human resource, and legal risks.

It is almost impossible to eliminate risk. However, risk can be minimized by implementing adequate strategies encompassing five main areas. These areas include the implementation of a business plan, the knowledge of the industry's market structure, the knowledge of current food regulations, the ability to secure customer loyalty, and networking.

Business Plan

Before developing a business plan, the main question that needs to be asked is “Why develop a business plan?” In this paper, the business plan is developed to determine whether adding value to agricultural commodities is profitable.

According to DiGiacomo, et. al. (2003), new and experienced business owners, regardless of history or current situation, can benefit from business planning. Business planning is an on-going, problem-solving process that can identify business challenges and opportunities that apply to production, marketing, human resources and finances, and develop strategic objectives to move the business beyond its current situation toward your future business vision.

A typical business plan has eight major components including a cover page, an executive summary, a farm description (i.e., type, location, and history), a strategic plan (i.e., mission, goals, business strategy, and implementation plan), a production and operations plan (i.e., crop system, value-added enterprises, etc.), a marketing plan, a human resources plan, and a financial plan (i.e., balance sheet, profitability, cash flow, etc.).

Mission statement, vision, measurable goal(s) and objectives are important components of the business plan. Measurable goal(s) and objectives are instrumental for evaluating expected outcomes and hence, monitoring business progress. By recording business milestones, an entrepreneur will be able to review business progress and react accordingly.

Funds are always needed when establishing new ventures. However, very often new ideas and dreams are not implemented due to the lack of adequate financial resources. Developing a detailed business plan with an appropriate financial strategy is crucial to the business success. Funds could be secured from various sources including personal and borrowed funds, loans and grants.

New products and markets are developed with customers in mind. Product differentiation, innovative market techniques based on consumers’ preferences and current trends will help farmers increase farm marketing margin.

Since the business plan is one of the most important strategies for developing value-added enterprises, small farmers are strongly advised to contact specialized offices such as Small Business Development Centers and business professionals for further assistance.

Industry’s Market Structure

Market structure refers to the number of sellers in the market, information availability, nature of the product; and market exit/entry conditions. There are four market structures, namely perfect competition, monopolistic competition, oligopoly, and monopoly. Knowing the market structure in which a business operates helps entrepreneurs strategize.

Most farmers operate in a highly competitive market known as perfect competition. However, the appropriate strategy is to move small farmers from pure competition to monopolistic competition where they might enjoy some market power. This is done through product differentiation, packaging, grading, or advertisement. By selecting an appropriate value-added business activity, farmers will be able to sell their products at a higher price and make some profit.

Updated Food Regulation and Safety

Food regulations could change over the course of the business operations. To stay current and in compliance with local, state, and federal laws, small farmers are advised to consistently check food regulations and legislations that might affect their businesses.

Costumer Loyalty

Once a new product has been developed, tested and accepted by costumers, it should be retested continually to ensure its quality. Very often, a new product attracts consumers. If the producer does not keep up with the quality of the product, he may end up loosing customers in the long run. Thus, consistently surveying costumers might help the entrepreneur keep customer loyalty by responding to consumers' complaints and making necessary changes.

Concluding Remarks

Small farmers face numerous problems including competition from their counterparts and from foreign farmers; production, marketing, financial, human resource, and legal risks. Product differentiation is the key for small farmers' survival. Niche market discovery will make each small farmer unique moving him from pure competition to monopolistic competition where he might enjoy some market power. Niche markets are value-added business opportunities generated through various means including focus groups, professional meetings, trade shows, and own research. Well-though strategies must be implemented to ensure a profitable value-added business. These strategies comprise five main areas including the implementation of a business plan, the knowledge of the industry's market structure, the knowledge of current food regulations, the ability to secure customer loyalty, and networking.

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