



United States  
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# Alternative Enterprises – Value-Added Agriculture

## Introduction

Farmers and ranchers have been pursuing ways to obtain a larger share of the consumer's dollar especially since the 1990's when the value of farm products declined drastically. This has resulted a tremendous growth in the marketing of value-added agricultural products. The farmer's share of the consumer's dollar decreased from 46% in 1913 to 24% in 1997 and is now at an all time low of 20 percent in 2000. A larger share of the consumer's dollar will result in a higher quality of farm life, more natural resource conservation and sustaining the rural community.

## How Can You Use Your Land's Legacy to Benefit the Public and Boost Your Bottom Line?

Many of us don't think of soil, water, animals, plants, and air as resources—they are just there. We use them and don't think too much about conservation of these resources either. Conservation practices enhance the productivity of the natural resources. In many situations, the cost of conservation practices is not recovered under current farm prices and marketing practices. Combining conservation practices with value-added agriculture results in the conservation of the natural resources and environment, increases their productivity, and enhances farmers' and ranchers' bottom lines.

## What is Value-Added Agriculture?

Value-added agriculture means getting more income from your farm in innovative ways: (1) growing a commodity for a special market, (2) changing the form of a commodity before it is marketed, (3) changing the way a commodity is packaged for market, (4) changing the way a commodity is marketed, or (5) adding a new enterprise. In many cases, the value-added alternatives can be combined to yield an even higher income to the farmer or rural community.

**1. Changing the way a commodity is marketed:** You add value when you market a raw agricultural product in a nontraditional way to command a higher price. You might, for example, direct-market your product at a farm stand, to special processors or users, to the local community, to schools or restaurants, or through farmers' markets or other outlets. Commodities that require special production methods or harvesting techniques, that reach specialty markets, or that fill another market niche can be grown under contract for a much higher net return. But you need to seek out these market alternatives or, in some cases, "sell the purchaser" on the concept that a higher value product is being offered for sale because of either the production/harvesting techniques, or product uniqueness.

**2. Changing the form of a commodity before it is marketed:** You also add value when you transform raw agricultural products through processing. Costs are incurred during processing; however, the "processing margin" covers the cost plus a margin that yields a higher profit. This also provides you the opportunity to market the product differently—for example, slaughtered and packaged beef that you sell directly to consumers, or whole-hog sausage that you sell to neighbors, friends, local organizations, or restaurants and institutions. Other value-added products include selling flour instead of wheat, or corn meal instead of corn; selling flour directly to the bakery or the consumer; or selling the final product, bread, to the consumer. Selling vegetables and fruits directly to the consumer rather than to wholesalers or processors requires cleaning, packaging, and displaying the commodity. But because you now do the processing, distribution, and packaging, you now have the opportunity to capture 100 percent of the consumer dollar.

**3. Changing the way a commodity is packaged for market:** Value-added marketing through packaging provides a great opportunity to increase profit. Package design is the first thing the consumer sees; *it is the basis for almost all first-time purchases*. Package size, for example, must meet the consumer's need. If he or she wants to buy a single tomato, one must not sell only by the basket. Consumers are willing to pay the price differential because they do not want to buy more than they need.

Unique, attractive, special occasion, or gift-ready packages provide a competitive edge. A special basket full of apples with a bow or a fall arrangement attached will sell faster and for a higher price to the customer who is looking for a gift. Some other ideas include honey with a bow or attractive label, a jam/jelly box, or special sauces. Packages with decorative and informative labels may also be a reward because they are gift-ready. In today's society of trending towards "ready-to-go," the seller does the thinking about how to add value to a basket of apples, that jar of honey or bunch of grapes, or those jams and jellies. The buyer is ready to pay for that service and more. Farmers have a special marketing opportunity in that many consumers want to connect with the land. In addition, value-added products complement tourism activities by giving visitors a tangible "piece" of place to take back home and share with others.

**4. Growing a commodity for a special market:** Ethnic- or culture-oriented consumers are the fastest growing value-added markets today. The growth in diversity through immigration has opened up strong ethnic markets in many areas of the country. A viable market exists in every metropolitan area today—not just in Los Angeles, New York, Chicago, and Miami.

The special markets include not only the foods with which recent immigrants grew up, but also organic, pasture-fed production because it meets diverse tastes and dietary needs. Immigrants also have influenced the diets of other Americans to the point that the market can be much larger than the specific immigrant group.

**5. Adding a new enterprise:** A new enterprise is defined as any change in a product or service. This includes *growing the commodity for a special or niche market*. A change in the production process, for example, might involve switching to organic production practices; it might mean changing corn or soybean varieties to produce a special crop for a special industry such as cosmetics, industrial oils, or textured vegetable protein. A new enterprise or activity might include adding mushroom or herb farming, goat production, or pasture-fed chickens. It could be "agritainment" such as petting zoos, bed-and-breakfast operations, fee hunting and fishing, nature walks, wedding facilities, farm/ranch stays, or picnicking. The most common new enterprise market is the organic consumer. Almost every farmers' market or food fair has several organic growers marketing various products.

Uniqueness is a vital part of selecting value-added enterprises. Most of the literature and successful entrepreneurs note that you need to identify a product that no one else is producing, and that you should establish that your

test market wants to purchase what you're selling. We need to think more broadly about our alternatives and who our customers might be. Such thinking expands the range of possibilities and includes them in a business plan. You may have listed completely different enterprises under alternative 3, "*Changing the way the product is packaged for market*," alternative 4, "*Growing the commodity for a special market*," and alternative 5, "*Adding a new enterprise*." Whichever alternatives you select must be driven by marketing opportunities that match your goals. The alternative or product you select must be "market driven" and not just a product you would "like" to produce and sell.

## Why develop a value-added enterprise?

Adding value to agricultural production contributes to the economic and environmental sustainability of both farm and community. Adding value to an agricultural product offers farmers the opportunity to receive a bigger share of the consumer's food dollar. (The farmer's share dropped from 46 percent in 1913 to 20 percent in 1998, according to the USDA Economic Research Service. Why? Consumers buy more "ready-to-eat" or "ready-to-cook" food while farmers generally continue to produce and market raw agricultural commodities.) By the year 2005, it is projected that people will be spending an average of only 15 minutes to prepare a meal, half as long as today. These meals are being called "home replacement meals," and value-added enterprises need to be looking at these changing consumption patterns.

Value-added products can open new markets, create recognition and appreciation for the farm, and extend the marketing season. Value-added products can dramatically increase a farmer's income.

Value-added agriculture is very important to any local economic development strategy. Jobs usually are created in the local community which, in turn, support additional jobs, yielding income that is spent locally.

## How do value-added enterprises contribute to sustainability?

Sustainability has many aspects. It begins with having your own food supply in your backyard or community. Over the past several decades, the trend has been away from local production. For example, the New England states produced more than 80 percent of their own food supplies at the turn of the 20th century. Now, more than 85 percent is imported into the region.

Value-added agriculture—

- sustains the farm by capturing a larger share of the consumer food dollar through direct marketing,
- creates an enterprise that is a logical extension of the current farm business,
- provides an innovative business strategy that allows small farms to compete with large farms,
- contributes to rural community development by attracting more food consumers and small-scale processing businesses that create new employment opportunities and new markets for high-value agriculture products, and
- invigorates the local economy.

## What are some of the keys to success?

Following are some general points identified by Keith Richards and Debra Wechsler, as summarized from interviews of successful value-added entrepreneurs in *Agricultural Technology Transfer for Rural Areas*. These include:

**Choose something you love to do.** It's hard work under the best of circumstances. If you are doing it just for the money, it's unlikely that the energy, creativity, and satisfaction necessary for success will be adequate.

**Follow demand-driven production.** Produce what your customers want. Get to know your customers. Keep adjusting your products according to their tastes and purchases.

**Create a high-quality product.** Quality is the single most important element that will differentiate your product from mass-produced alternatives. More and more, consumers want fresher, better tasting, healthier products than those available from large retailers.

**Start small and grow naturally.** Invest your ingenuity first, labor second, and money third. If you start small, the effort you invest and the income you generate are more likely to be matched. Let the market dictate your growth.

**Make decisions based on good records.** Base business decisions on what is, not what you hope or guess the situation to be. Even if everything else is right, poor financial management and decision-making can still kill the business.

**Establish a loyal customer base, preferably local.** In addition to high quality and meeting customer demand, focus on your niche. Personal contact, exceeding expecta-

tions, providing steady supply, and community involvement will help secure a strong base of repeat customers.

**Provide more than just food or a product.** People are hungry for a connection with the rhythms of the earth and for a sense of community. Provide your customers with an experience of the satisfactions and spiritual rewards of your farm life. Provide them with some fun, peace, and relaxation.

**Get the whole family or all the partners involved.** Value-added processing takes additional energy and skills. When several family members are involved, each person can contribute his or her unique talents and specialize for efficiency.

**Keep informed.** It is important to keep informed about your customers, your competition, the laws concerning your business, and other producers.

**Plan for the future.** To be successful, you have to know where you are headed. Each path requires different courses of action. Set goals for your business and a plan of actions to achieve them.

## What are the added risks with value-added agriculture products?

Any activity or enterprise that requires the public to come onto your farm, such as a U-pick enterprise, or around your premises, such as a booth at a farmers' market, also requires additional insurance. Most farm insurance policies will cover this type of enterprise for an additional cost. However, an agritainment activity (such as petting zoos, hay rides, corn maze, and the like) will generally require an additional policy other than the one that covers the farm. Also, value-added processing of fruits, vegetables, or meats increases safety risks and requires an understanding and satisfaction of Federal and state rules and regulations. You need to consider these factors in your business plan as it pertains to business responsibilities and marketing options.

## How successful are value-added processing enterprises?

There is no one formula for a successful value-added, small-scale processing enterprise. Nationally, only about 8 percent of the people who start a value-added processing enterprise are successful.

For example, of entrepreneurs who follow the University of Nebraska Food Processing Center phase I and II

programs, over 80 percent remain in the food manufacturing business. However, 80 percent of those who completed the phase I program decided to drop the value-added processing enterprise before taking the phase II program.

Several small business centers located throughout the United States are available to assist farmers and other small entrepreneurs to help them determine what might be successful enterprises for them.

The best way to identify the type of assistance available in your state or a neighboring state is to call the office of the State Extension Director. This office should be able to provide names and telephone numbers of the Small Business Administration Centers, food processing centers, Service Corps of Retired Executives (SCORE), consultants, and other organizations that could assist you.

## **What are the typical value-added start-up management considerations?**

Following are five areas identified by Kristen Markley and Duncan Hilchey in the publication “Adding Value for Sustainability.” These points are discussed extensively in the publication. Only the management considerations discussed by the authors are presented here.

### **Quality Products**

- Decide to explore a value-added business endeavor after receiving enthusiastic response from friends and from customers when the product was test-marketed at a farmers’ market.
- Discuss product development with university food science Extension specialists.
- Subscribe to specialty food journals, purchase books on the topic, search the Internet, and spend time in the reference and periodicals sections of a public library.

### **Good Marketing and Management**

- Develop a business plan, market research plan, and bookkeeping records using a system such as Cornell’s Farming Alternatives guide, assistance from the local Small Business Development Center (SBDC) and SCORE, the county Cooperative Extension office, NxLevel™, or other economic development agencies.
- Determine the most appropriate market distribution channels (based on market research) such as farmers’ markets, restaurants, gourmet food stores, mail-order catalogs, supermarkets, web sites, or wholesalers.
- Research brokers and distributors.

- Attend trade shows, talk with vendors, and research their products and marketing channels.
- Hire a qualified graphic designer to help with labeling, packaging, and sales literature design ideas.
- Use sales literature and sampling demonstrations at local gourmet food shops and farmers’ markets to test the product.
- Send out press releases to local newspapers to encourage articles.

### **Sufficient Capital**

- Research co-packers and food processing incubators.
- Research sources of capital.
- Keep capital costs down.

### **Food Safety**

- Research and comply with Federal, state, and local laws and regulations.
- Contact appropriate local, state, and Federal food safety regulators regarding processing, packaging, and labeling.
- Become familiar with the Hazard Analysis Critical Control Points (HACCP) programs through attending industry or university training.

### **Other Legal Issues**

- Determine the business legal structure, and if there is more than one business partner, develop a business partnership agreement.
- Purchase sufficient product liability and other necessary insurance coverage.
- Research registration of trademarks.

## **Does value-added agriculture increase the role of management?**

As one takes on more aspects of marketing and distribution in the value-added enterprise, the need and use of a total business plan becomes more apparent and important. The more aspects there are to a business, the more crucial it is to have a 5-year (long-range) plan, a 1-year plan, and a daily management and business plan. Value-added agriculture and agritainment increase the complexity of a farm operation, especially in many management and production areas with which farmers or other small business people may not be familiar. A business planning process that requires you to contact people experienced in these areas of production and management is needed. This process makes you more likely to include all the steps and requirements for determining the feasibility of your new enterprise.

Business planning processes and workbooks are available through the Small Business Administration, universities, farm management firms, Cooperative Extension Service, and in your local library. “Farming Alternatives: A Guide to Evaluating the Feasibility of New Farm-Based Enterprises” is a very useful workbook developed by the Northeast Regional Agricultural Engineering Services. Call 607-255-7654 for more information on this publication.

## What are some of the value-added marketing alternatives?

Some of the more common marketing alternatives for agricultural products include: U-pick operations, farmers’ markets, gourmet and specialty shops, health-food stores, local food cooperatives, mail order, restaurants and catering businesses, roadside stands, supermarkets, community-supported agriculture, upscale delis and grocers, and the Web. Processing alternatives of the agricultural products include: prepared meats/poultry (jerky, Bar-B-Q, smoke/seasoned), jellies and jams, pies, cheeses, ice cream, gift baskets, and many others. Finally, agritainment enterprises use natural resources for such activities as hayrides, fee fishing or hunting, bird watching, bed-and-breakfast operations, farm/ranch stays, pumpkin picking, and many others. The NRCS Information Sheet (AE-1) “Alternative Enterprises—For Higher Profits, Healthier Land” lists more than 150 alternative enterprises for ranches, farms, or communities. (Call 1-888-LANDCARE for a copy.)

## How does one get started in a value-added enterprise?

- Conduct research at the library or university, or on the Internet.
- Talk to friends, neighbors, farmers/ranchers, Cooperative Extension, RC&D Council, foundations, and other entrepreneurs who run value-added agricultural enterprises.
- Learn the marketing side of value-added agriculture; marketing will make or break a value-added enterprise.
- Visit fairs and trade shows that spotlight value-added enterprises.
- Attend conferences and meetings.
- Contact the Small Business Development Center and the appropriate county, state, and tourism bureaus.
- Start small and simple.

- Identify your product. Is it unique?
- Identify your customer.
- Build a customer base before venturing into the “product processing” phase of value-added enterprise.
- Develop a long-range plan.
- Develop business and marketing plans.
- Join organizations (Chamber of Commerce, Rotary) that serve both your new peer group and your new or prospective customers.
- Join associations and other value-added groups.
- Form partnerships with your neighbors. Work together.

Kim Knorr-Tait, a value-added farmer in Pennsylvania, says, “We are small. We can adapt to market trends. We can be flexible. We do what is needed.... A business has to do what no one else is doing in order to succeed. A key to success is being unique and able to differentiate yourself.”

## What are some recommended references?

Some of the available references on value-added agriculture are presented below. Those marked with an asterisk are available for a fee. There may be other references available in addition to those listed.

*Adding Value for Sustainability: A Guidebook for Cooperative Extension Agents and other Agricultural Professionals*, Kristen Markley and Duncan Hilchey, Pennsylvania Association for Sustainable Agriculture, PO Box 419, Millheim, PA 16854, Telephone: 814-349-9856. \*

Publication on management considerations, community support, case-study examples of value-added industries, and a list of resources and information on small-scale food processing.

*Adding Value to Farm Products: An Overview*, Appropriate Technology Transfer for Rural Areas (ATTRA), Telephone: 800-346-9140. Web [www.attra.org](http://www.attra.org).

Introduces the concept of value-added farm products, outlines keys for success, and provides resources for additional information.

*Small-Scale Food Dehydration: A Resource List (Value-added Technical Note)*, ATTRA. Telephone: 800-346-9140, Web [www.attra.org](http://www.attra.org).

Lists a variety of resources, including Extension and general publications, that describe dehydration processes, equipment, and designs for growers who would like to construct their own dehydrator.

*Small-Scale Oilseed Processing (Value-added and Processing Guide)*, ATTRA, Telephone: 800-346-9140. Web [www.attra.org](http://www.attra.org).

Describes the basic processes involved in small-scale oilseed processing. Describes different low-cost techniques and lists of resources for more information.

*SoyFoods: Adding Value to Farm Products (Value-added Systems Guide)*, ATTRA, Telephone: 800-346-9140. Web [www.attra.org](http://www.attra.org).

Provides an overview of food products made from soybeans: tofu, miso, natto, soy milk, soy flour, and soy oil. Provides resources for specific information on soyfood production and marketing.

*Marketing Strategies for Farmers and Ranchers*, SARE, USDA, CSREES. Telephone: 202-720-5203. Web [www.sare.org/san/htdocs/pubs](http://www.sare.org/san/htdocs/pubs).

An overview of alternative value-added marketing strategies with a few case studies. Provides insight into value-added agriculture by selling through farmers' markets, community-supported agriculture and new cooperatives, as well as business planning. Contains a list of resources for general information, business planning and management, web site, books, periodicals, and videos.

*Farming Alternatives: A Guide to Evaluating the Feasibility of New Farm-Based Enterprises*, Small Farms Series, Northeast Regional Agricultural Engineering Services, Cornell University, 152 Riley-Robb Hall, Ithaca, NY 14853. Telephone: 607-255-7654.

A workbook written for families and individuals interested in developing a new farm-based enterprise, including nontraditional enterprises. It contains worksheets to evaluate family goals, alternative enterprises, marketing, production, profitability, financial feasibility, and decisionmaking.

*Dynamic Farmers' Marketing: A Guide to Successfully Selling Your Farmers' Market Products*. Jeff Ishee, Bittersweet Farmstead, PO Box 52, Middlebrook, VA 24459. Telephone: 540-886-8477. \*

Addresses effective planning and income potential, farmers' market organization, products that sell, the role of quality, and specialty products. Examines relationships and customers in depth.

*Sharing the Harvest: A Guide to Community-Supported Agriculture*, Elizabeth Henderson and Robyn Van En, Chelsea Green Publishing, P.O. Box 428, White River Junction, VT 05001. Telephone: 800-639-4099.

Presents information on the goals and focus of Community

Supported Agriculture (CSA): getting started, getting organized, types of food to grow. Describes the many CSA models, from the community-organized and -operated model to the subscription model, which the farmer organizes and operates. Gives guidelines for planting, harvesting, operations, and organizations.

*CSA Farms in the United States 1999-2000: A new partnership between farmers and consumers*, USDA, SARE. Telephone: 202-720-5203.

A listing, by state, of farmers and Community Supported Agriculture ventures with addresses, e-mails, and telephone numbers.

*Making Your Small Farm Profitable*, Ron Macher, publisher of Small Farm Today, Storey Books, Pownal, VT 05261. \* Discusses 25 guiding principles, development of new crops and new markets, and ways to maximize net profit per acre. It suggests planning, management, and 44 enterprise budgets for livestock, poultry, crops, fruits, and vegetables. It also contains a guide on equipment costs, operation costs, and other factors for budgeting purposes.

*South Dakota Farm and Ranch Vacation: Resource Directory*, South Dakota Department of Tourism, 711 E. Wells Avenue, Pierre, SD 57501, FAX: 605-773-3256.

A checklist and presentation of the steps one needs to follow when considering agritourism or other value-added enterprises. The focus is on South Dakota, but the steps are applicable anywhere.

*Backyard Market Gardening: The Entrepreneur's Guide to Selling What You Grow*, Andrew W. Lee, Good Earth Publications, 1720 Mountain View Road, Buena Vista, VA 24416. Telephone: 540-261-8775. \*

The author, with more than 30 years' experience as a market gardener, home builder, small business owner, and international speaker, discusses how you can earn \$36,000 per acre from your backyard. Covers garden siting, preparation, tools needed, marketing, new ideas, business planning, production management, and eco-farming.

*Small Farm Today: The Original How-to Magazine of Alternative and Traditional Crops, Livestock, and Direct Marketing*, Telephone: 800-633-2535.

Founded for and dedicated to the preservation and promotion of small farming, rural living, sustainability, community, and "agriprenurship." The October/November/December 1999 issue included feature articles on greenhouses, turkeys, hogs, miniature Herefords, herbs, dry beans, oxen, and market gardening plus 24 other articles.

*Small Farm Digest*, USDA, CSREES, Small Farm Program. Telephone: 202-401-6544. Articles on USDA activities, small-farm success stories, small-farm studies, and calendar of events.

*You Can Farm: The Entrepreneur's Guide to Start and Succeed in a Farming Enterprise*, Joel Salatin, Good Earth Publications. Telephone: 800-499-3201. A basic book for people interested in becoming farmers. Contains a substantial amount of information on production, management, marketing, and planning for a small-farm operation that direct-markets pasture-fed chickens, beef, and vegetables. Production methods minimize cost of materials and other inputs.

*Agritourism in New York State: Opportunities and Challenges in Farm-Based Recreation and Hospitality*, Duncan Hilchey, Farming Alternatives Program, Cornell University. Telephone: 607-255-9832. A detailed examination of farm-based tourism enterprises. Five case studies are reported as well as management considerations/skills, potential demand, and a sample agritourism farm activity and budget.

*Developing New Markets to Support Local Agriculture: Tapping New Markets, Creating a Regional Product Identity and Promoting Local Wholesaling*, Farming Alternatives Program, Cornell University. Telephone: 607-255-9832. Contains a complete listing of resource material available through the Alternative Farming Programs.

*Adding Value: With Small-Scale Food Process and Specialty Dairy Products, Farming Alternatives Program*, Cornell University. Telephone: 607-255-9832. A handout from the "Farming for the Future Leadership Training Workshop."

*Income Opportunities for the Private Landowner through Management of Natural Resources and Recreational Access: Proceedings from the Conference*, West Virginia University Extension Service, Morgantown, WV. Proceedings of a 3-day conference held in 1989. Includes more than 407 pages containing 55 articles. A number of these articles are published as separate publications. Contact James Maetzold, 202-720-0132 or [jim.maetzold@usda.gov](mailto:jim.maetzold@usda.gov), for a copy of the table of contents to determine articles of interest.

*Farmers Direct Marketing Program*, USDA, Agricultural Marketing Service. Telephone Errol Bragg 202-720-8317. [Web www.ams.usda.gov/directmarketing](http://www.ams.usda.gov/directmarketing). Focuses on direct marketing through farmers' markets and Community Supported Agriculture ventures.

*Tilling the Soil of Opportunity: NxLevel™ Guide for Agricultural Entrepreneurs*, University of Nebraska, US WEST Foundation and SARE. Call 1-800-873-9378 or 1-800-328-2851 to find out where the next course will be held in your area. Training course developed by more than 15 business writers, producers, and consultants involved in successful direct marketing agricultural businesses. Covers assessing your resources, business planning and research, marketing, business management, legal considerations, budgets, and financial management. The course goal is "helping producers reach the next level of success."

*Entrepreneurial Training Program*, USDA, CSREES. Telephone: Randy Williams 202-720-0743. New program designed to train agricultural entrepreneurs and other rural small business owners in the planning, management, and operation of a small business.

*AgVentures*, published bimonthly. Telephone: 888-474-6397. \* Publishes articles on livestock, crops, aquaculture, niche markets, wildlife, herbs, and other topics. The articles are based on actual alternative enterprise success stories.

Resources are identified at the end of each article. For additional copies of this information sheet, AE-4, call 1-888-LANDCARE or see the web site at <http://www.nhq.nrcs.usda.gov/RESS/econ/ressd.htm> for more information.

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