



The Golden Rules of Value-Added Agriculture

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Many agricultural producers live the dream of being a price maker rather than a price taker. As profit margins compress in a global economic world, this is accentuated, particularly in down price cycles. The lure of selling your product or service with more of a retail flavor becomes attractive.

Value-added business models can be attractive economically with the euphoria of selling a quality product or service to a delighted customer. However, this concept can also be laden with traps and detours that can potentially frustrate the most creative, persistent, and patient individual.

Speaking from Experience

I'd like you to hitch a ride 3,000 miles east to the Blue Ridge Mountains of western Virginia. In developing the golden rules of value-added agriculture, I will present some perspectives from the standpoint of my actual involvement in two value-added businesses. One business harvests and sells high quality grass hay to equine enthusiasts and exotic pet owners. The other involves selling natural, glass-bottled milk and dairy products and home delivery of agricultural products, both wholesale and retail. I will be the first to admit the journey in these businesses has taught all of us involved that there is a school of hard knocks. But, when we observe the cup half-full, there has been fun and fulfillment.

Golden Rule 1: Put it in Writing

The first step in any value-added concept is to put your dream on paper. Developing a full-fledged business plan with the assistance of a neutral consultant and facilitator provides objectivity and a road map of taking the concept to reality. Most business plans include the purpose, goals, objectives, action plans, and timelines. Develop

your marketing, financial, risk management, operational, and labor plans along with a list of compliance, regulation, and permit requirements. Yes, don't forget your alternative routes and an exit plan in case you are required to gracefully bow out. After developing the plan, use it. In our value-added dairy business, the plan is utilized during each monthly meeting in decision making.

Golden Rule 2: S.W.O.T. Analysis

In developing your marketing plan, decide your competitive edge. Is it price, quality, or uniqueness? Conduct an old-fashioned S.W.O.T. analysis, evaluating strengths, weaknesses, opportunities, and threats of your business and your competitors. In both of our value-added businesses we have taken advantage of the local, natural, and small family farm image. The competitive edge for the dairy business is producing premium ice cream, eggnog, and milk in glass bottles which appeal to a niche market of consumers in the region. Word-of-mouth has been our best advertisement, along with timely local newspaper articles.

Golden Rule 3: Build the Brand

One of the biggest mistakes people make in value-added is the idea that if you develop the product or service people will come and buy it. Wrong. It takes time to build up your brand image. If you are selling your product wholesale to stores or distributors, be prepared for a maze to reach the decision makers. In some cases, it can range from the secretary to an ego-driven manager. An influential board member in the local planning commission who helps obtain permits, or a health and safety regulator that provides a moving target of rules and regulations can present the good, bad, and ugly in any agri-enterprise's life. A guide dog or a network of influencers can accelerate your execution plan.

Golden Rule 4: A People Person

Do you enjoy working with and through people? Most agricultural people are independent by nature and produce high quality products. As you move to providing value, someone in your equation must be strong in dealing with people and the public. This person must be a champion of the product or service and exhibit keen ways to execute and facilitate business strategy. They are usually good listeners and constantly strive to tweak and promote the product or service to maintain a fresh marketing image to the customer base.

Golden Rule 5: Know Your Costs

Make sure you know your cost of production including variable and fixed costs. If multiple enterprises exist, conduct a quick and dirty enterprise analysis. This will allow you to allocate your time, energy, capital, and resources for optimal results.

Knowing your cost will assist you in negotiations with wholesalers and retail pricing to meet competitors. We attempt to break our cost down to simple terms, such as per gallon of milk, per quart of ice cream, and per bale of hay, with divisions for cost of production, distribution, overhead, etc. This is very important in our staff and board meetings when comparisons are made of actual to projected results. Some will say you don't need the financial sophistication and you can "shoot from the hip." In two value-added businesses that I have counseled out of difficulty, the main cause was lack of knowledge of cost and poor financial records.

Golden Rule 6: Keep It Simple

Keep your concept simple and focused in the beginning. Don't try to be everything to everyone. One of the biggest mistakes people make in this business concept is failing to minimize overhead or fixed costs. Fancy buildings and equipment can quickly become dead weight and non-productive assets can reduce competitiveness and flexibility that is needed in this fast-paced entrepreneurial environment.

Golden Rule 7: Choose Your Partners Well

It is important to put thought into choosing your partners. This includes business partners, alliances, input suppliers, and your lender. Thoroughly discuss each stakeholder's role, preferably in writing. Time in developing agreements up front can save many headaches and problems should challenges arise. Occasionally, it is important to survey where partners and stakeholders stand since goals and motivations change as your plan evolves.

In this process it is critical to find a lender who is stable and who can quickly understand your business model. A good lender can provide objective insight and perspective concerning strategic direction. Occasionally, they may say no, which can be emotionally disheartening, but in the long run can save you valuable money and time.

Golden Rule 8: Build Up Working Capital

Whatever the start-up capital is projected, add 25 to 50 percent. Also, plan for a working capital line or reserve that is 25 percent of expenses. Frequently, the number one reason value-added businesses fail is undercapitalization. This can occur in the initial phases or during rapid growth of the business model when it is successful. If you are profitable out of the gate, it is not bad to pay income taxes and develop an internal working capital fund. Our dairy company was able to apply this concept which allowed us to acquire home delivery trucks at 30 cents on a dollar, lowering our breakeven by at least one-third.

Golden Rule 9: Evaluate Income Expectations and Time Commitment

Many ventures start out part-time. Generally, a value-added business venture requires a minimum of \$40,000 net income per partner to stand on its own. Time will be a critical element in planning and operating your business venture. Exceeding 3,000 hours annually over an extended period of time can quickly turn excitement to burnout.

Golden Rule 10: Keep it Fresh

Keep your concept or business model fresh. Our businesses attempts to makeover approximately 20 percent of our products and services per year. This has involved the employees and staff providing ideas and suggestions, which brings a sense of empowerment. Customers are constantly providing ideas and input which leads to a dynamic, evolving business model. Reading trend magazines and books such as Inc., Entrepreneur, and Fast Company and conducting occasional focus groups with key customers and suppliers can keep you on the cutting edge.