

VALUE-ADDED ENTERPRISES SESSION

Developing a Sound Value-Added Enterprise for Small Farmers

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Abstract

The Small Farm Institute is a program of the Maryland Cooperative Extension (MCE) serving small-scale family-owned/managed farm producers. The program seeks to improve the profitability and enhance the viability of small farm operators. MCE Small Farm Institute provides production systems, farm management, **marketing**, and outreach educational programs to small farmers and agricultural entrepreneurs.

Given the competitive world in which small farms operate today, as well as the development of giant firms creating therefore a risky and uncertain business environment for small farms; high value crops, and **value-added enterprises** are no longer an option but a necessity for small farmers. Hence, small farmers should be provided with several alternatives to choose from in order to help them succeed and satisfy their clientele.

Capitalizing on recent agricultural and demographic changes in the U.S., this session will discuss strategies farmers and agricultural entrepreneurs could use to develop and sustain **value-added activities** based on new and emerging markets. Several cases will be discussed and illustrated. The session will also address sources of **funding for value-added enterprises**.

Introduction

Maryland Cooperative Extension (MCE) Small Farm Institute's mission is to enable small-scale farmers and entrepreneurs to improve the viability and profitability of their operations through innovative research-based and community information focusing on identified needs and partnerships. MCE Small Farm Institute develops alternative enterprises and establishes new market outlets and strategies for small farmers by stimulating research and extension educational programs (Tubene, 2002).

A competitive world, in which small farms operate today combined with the development of giant firms, have pressured small farmers to become innovative. These innovations include high value crops, value-added enterprises, and alternative marketing strategies. The development of value-added activities is influenced by several parameters including small farmers' economic environment, agricultural and demographic trends; and consumers' tastes and preferences.

Capitalizing on such parameters, this paper discusses strategies farmers and agricultural entrepreneurs could use to develop and sustain value-added activities.

Farmers' Classification

A farm typology developed by USDA's Economic Research Service distinguishes three categories of farms including small family farms (sales less than \$250,000), other family farms (sales more than \$250,000) and non-family farms. Small family farms comprise 4 groups: limited-resource, retirement, residential/lifestyle, and farming-occupation farms (Hoppe and MacDonald, 2001).

- Limited-resource farms are small farms that reported gross sales less than \$100,000, total farm assets less than \$150,000, and total operator household income less than \$20,000;
- Retirement farm operators reported that they were retired. This group excludes limited-resource farms operated by retired farmers;
- Residential/lifestyle farms are small farms whose operators reported a major occupation other than farming;
- Farming-occupation farms group includes operators whose primary/major occupation is farming. They include low-sales and high-sales farms. Farming-occupation/low-sales farms are small farms with gross sales less than \$100,000 with operators reporting farming as their major occupation whereas farming-occupation/high-sales farms reported gross sales between \$100,000 and \$249,999, and farming as their major occupation.

Small Farmers' Economic Environment

U.S. small farm characteristics include size of operation, land use, production, farm financial returns, government payment patterns, source of household income, location and business arrangements. Most U.S. farms are small and most farmland is on small farms. However, most agricultural production (more than 2/3) comes from large family and non-family farms. Small farms, on average, are less viable business than large farms. In terms of government payments, high-sales small farms and large family farms receive a large share of government payments. In addition, small farm household rely heavily on off-farm income (Hoppe and MacDonald, 2001).

Nowadays, small farms struggle to keep up with economic and technological changes that have affected the U.S. agricultural industry since last decade. The competitive world in which small farms operate has created a business uncertainty and added more risk to farm operations. Adequate risk management tools and marketing skills are no longer an exception but a requirement. Small farms must be creative in order to compete against their large farm counterparts. Innovations may take several forms including more diversified enterprises, value-added activities as well as product and market development (Tubene and Hanson, 2002).

U.S. Agricultural and Demographic Trends

The 2000 Census data revealed significant trends in the U.S. population. Trends were also recorded in the agricultural sector over the last decade. For instance, while the total Mid-Atlantic population (i.e., Maryland, New Jersey, and Pennsylvania) has increased less than 12 percent in the last decade, Caucasian population has decreased less than 4 percent. Most mid-Atlantic minority populations have grown by more than 24 percent. On the other hand, mid-Atlantic farms and farmland, agriculture cash patterns, and crop production have experienced mixed trends. In fact, the number of farms and farmland has dropped since 1987 whereas the agricultural cash sales have increased in the last 10 years. While some crops have increased in size, others (such as tobacco) have declined (Tubene, 2001).

These trends can guide small farmers in their decision making process when choosing value-added enterprises. New and emerging markets may be targeted toward new crops (i.e., wine grapes rather than tobacco in the mid-Atlantic) and growing populations' tastes and preferences.

Value-Added Enterprise Strategies

Value-added enterprise can be defined as an activity that enhances value to a commodity or product as a result of change in its physical state. The best value-added enterprise strategy is one that meets business entrepreneurs' goals and helps them stay in business. Some value-added strategies include knowing the market structure in which a business operates, defining the business' goals through a well-developed business plan, checking financial resources, developing adequate products and potential markets, testing the strategy at hand and establishing criteria for changing a strategy.

- **Market Structure:** market structure refers to the number of sellers, information availability, nature of the product; and the exit, and entry conditions of the market. Market structure includes perfect competition, monopolistic competition, oligopoly, and monopoly. Most farmers operate in a highly competitive market. Knowing his market structure could help farmers strategize.
- **Measurable Goals:** Mission statement, goals and objectives are part of the business plan. Measurable goals help evaluate desired outcomes and monitor progress.
- **Funds Availability:** Financial plan is crucial in achieving business success. Very often new ideas and dreams are not fulfilled due the lack of financial resources.
- **Product and Market Development:** New products and markets are developed with customers in mind. Product differentiation, innovative market techniques and outlets based on consumers tastes and preferences as well as current demographic trends could help farmers increase their farm margin.

- Strategic Plan: A strategic plan helps channel value-added innovations and market opportunities. A set of strategies might include defining how to meet business goals and objectives, testing existing strategies and establishing criteria for change, setting realistic expectations and contingency plans.

Potential Sources of Funding for Value-Added Enterprises

Several federal, state and local agencies as well as private organizations provide funds and/or help identify funds for implementing value-added enterprises. They comprise Rural Business-Cooperative Service (RBS), Resource Conservation and Development, Inc. (RCD), Sustainable Agriculture Research & Education (SARE), Small Business Centers, County Economic Development offices, and university Cooperative Extension services.

Title 6 of the 2002 Farm Bill (www.usda.gov/farmbill) has a provision on rural development funds. Section 6401 discusses Value-Added Agricultural Product Market Development Grants.

References

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