



Value-Added Strategies: Taking Agricultural Products to the Next Level

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Value-added is simply the act of adding value to a product, whether you have grown the initial product or not. It involves taking any product from one level to the next (for a definition, see www.agmrc.org/business/vaadefinition.html).

For farmers, value-added has a particular importance in that it offers a strategy for transforming an unprofitable enterprise into a profitable one. In fact, there are very few items that a Hawaii small farmer can produce and sell profitably at the first level (that is, on the open wholesale market). Therefore, a value-added strategy is critical to the long-term survival of most small farms in Hawaii.

For example, a coffee farmer who simply grows and harvests his or her coffee cherry, and then sells it "as is" to a local processor, usually sells at a price below the cost of production. This marketing plan may be viable in the short run, because it may cover the cash costs involved in producing the crop. However, it is a poor strategy because it usually does not cover the total (or economic) costs of production, and therefore the coffee farm will not be sustainable.

However, the grower has a range of options other than immediately selling to a processor. The farmer can remove the cherry pulp and wash and dry the coffee beans to create "parchment." The coffee parchment can then be either sold or stored for some time in this form. The farmer has now added value to the coffee he ini-

tially harvested. By choosing to sell at this next level of parchment, the grower can often obtain enough extra income to make coffee production an economically feasible enterprise.

An increasing number of coffee farmers are now choosing to hold on to their parchment longer and add further value to it. They can mill the parchment to form "green beans," which in turn can be either sold to roasters or roasted and packaged at the farm for retail sales as "estate coffee."

A coffee grower can even add more value by opening the farm to visitors who can tour the farm and learn about the whole process of growing, harvesting, pulping, drying, milling, grading, roasting, packaging and, ultimately, tasting coffee. Taking coffee to the agricultural tourism ("agtourism") level allows the more entrepreneurial grower to operate a retail shop and to sell over the Internet to those who have already visited the farm. Once the farmer has added value all the way to the level of agtourism, he is selling more than just coffee—he or she is also selling a visitor experience. Agtourism is the ultimate value-added strategy.

The amount of value to be added to a farm product is limited only by imagination. Continuing with coffee as an example, a grower could produce or market coffee in a fundamentally different way. While organic production is the most obvious method of differentiating a product, many can be effective. Coffee, in addition to

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being labeled as “organic,” can be marketed as “shade tree coffee,” “bird-friendly coffee” and “fair trade coffee.” There are usually extra costs associated with different practices so they must be more than offset by increased prices.

The fact that coffee is grown in a particular region or political district, such as Kona, can add enormous value, to which growers in districts adjacent to Kona can attest. Direct marketing can add further value, as when a coffee is sold directly to chefs or when the tree itself is rented to the customer. The tree-rental customer, of course, feels a direct connection that has psychological (and therefore some monetary) value. This customer also receives his/her own tree’s coffee, roasted to specifications and packaged with an individualized label. All of these services and transformations add additional value to the coffee cherry. If this increased value exceeds any additional costs that may have been incurred, the farm profitability will increase.

This discussion has focused on coffee to illustrate the basic principles underlying a value-added strategy. Examples could also easily be drawn from the production of tropical fruit, tropical flowers, livestock, and vegetables. Throughout Hawaii, many creative small farmers are increasing their profitability by vertically integrating their operations rather than simply expanding horizontally to increase their volume of production. They are adding value to their crops by taking their product

one or more steps up the vertical ladder of processing and marketing rather than staying at the same level and trying to increase quantity.

By taking greater responsibility for their products as they move to the final consumer, more and more Hawaii agricultural producers are capturing some or all of the profits that others had previously taken.

Some resources:

U.S. Department of Agriculture Rural Development Value-Added Producer Grants of up to \$500,000 are available to help farmers develop and implement value-added strategies; see www.rurdev.usda.gov/rbs/coops/vadg.htm.

The U.S. Food and Drug Administration has a pamphlet about FDA regulations that provides answers to questions about what to do when marketing a new product; it is available at www.fda.gov/ora/fed_state/small_business/sb_guidw/default.htm.

In addition, CTAHR’s Cooperative Extension Service offices throughout the state offer access to education and information for growers and processors. For locations, see www.ctahr.hawaii.edu.

Suggested for further reading:

The Muscadine Experience: Adding Value to Enhance Profits. Arkansas Agricultural Experiment Station Research Report 974, Sept. 2004, www.uark.edu/depts/agripub/publications.