



# Dollars & Sense

► by Vern Pierce, beef economist, University of Missouri-Columbia

## How about trying profit-added agriculture?

*Value-added agriculture is receiving so much attention in the marketplace, media and educational meetings that I fear some may begin to follow the trend without fully applying the underlying principles. The purest version of value-added marketing systems has at its base the fundamental concept of really adding profits to those who participate, including the original producer.*

### A reminder

I recently developed a series of educational workshops in which I outsourced the management and scheduling functions to a professional conference management firm to add value to my efforts. What I found at the end of the day was that much of the value I added by using this company, which did a very good job, was retained by that company as a management fee.

This reminded me of a fundamental business principle practiced by some value-added agricultural programs that can reduce the benefits to producers. That principle suggests that those who do the innovation get the economic benefit from that new business.

I don't bring this to your attention to imply that this business principle is devious in any way. In fact, I fully support the idea. It's called the free market. If you get an idea that differentiates yourself or your product from others, then you should get paid for that innovation.

My desire is for you to recognize this principle and the lesson that I learned in my workshop experience.

If you produce a high-quality product and

that product has value added to it by someone else after it leaves your hands, then that someone will get the benefits from your efforts, and that's a good thing! You do it, don't you? You buy inputs from grain producers and feed them to your cows and try to add value to that grain. If you end up making a good profit from what you do, then you have just demonstrated the principle of profiting from the added value. In fact, isn't that what beef producers do to corn producers every day? Yet, we don't recognize the same honorable behaviors when others do it to us.

### Capture some profit

Value-added agriculture is the current movement that catches our eyes. You will see a reference to it in almost any publication that you pick up. There is relentless advice on how to move your business operation into the mainstream of value-added agriculture.

Yet, one former U.S. Secretary of Agriculture recently suggested something very powerful. He said that producers must learn to capture a greater share of the food dollar. From a financial standpoint there is a great difference between adding value and

capturing a greater share of the food dollar.

It is called value capturing, and it is what we do when the price of beef cattle is high. It's what those who buy cattle in the market at commodity prices and then sell in value-added and branded beef programs have done for years, regardless of the cattle price, until the alliance programs emerged.

"Value" is an economic term. The value of the commodity that you are selling refers to how much that input will benefit the next owner. For example, corn may be selling at the local elevator for \$2 per bushel (bu.). However, given my production system and the fact that I know my cost of production, I could really pay up to \$3 and still break even in my beef operation. Therefore, the corn has a greater value to me than the corn market is demanding. The corn producer added value by producing just the right product I needed. However, the marketplace did not allow the corn grower to capture all of that value, instead leaving it on the table for the next owner.

Adding value to your product can create additional demand for that product and additional profit for you if:

- you can differentiate your product and its characteristics;
- the buyer can identify you and the characteristics of the product you sold;
- the buyer understands the extra value that you are adding to his system (in other words, he knows how much he could pay — \$3 for the corn in the prior example); and
- the buyer has a way to let you know which characteristics of the product actually helped him the most so you can repeat the same process or make changes to add even more value to his system.

If these statements hold true, you can capture value you added rather than just hoping someone will pay you a higher price. It is natural to jump on the value-added bandwagon.

### Be an innovator

Remember, the profit comes back to those who innovate. If you're looking to become part of a value-added program, it's great, and even essential, that companies doing the work after the beef leaves your operation make a nice profit. Seek out those companies that will provide you information so you can be part of the profit-adding bandwagon rather than just the value-adding one.

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