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Value-Added: “For the Long-Term”

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Cornhusker Economics

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Market Report	Yr Ago	4 Wks Ago	4/5/02
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$ *	$73.07	$71.60
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	99.37	90.67	87.37
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	101.87	95.85	97.76
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	119.59	112.41	111.05
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	47.50	*	31.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	63.50	*	35.71
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	112.15	101.92	*
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	*	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	171.00	141.72	*
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.12	2.94	3.08
Corn, No. 2, Yellow Omaha, bu	1.89	1.87	1.83
Soybeans, No. 1, Yellow Omaha, bu	4.18	4.37	4.43
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.48	3.61	3.45
Oats, No. 2, Heavy Minneapolis, MN , bu	1.40	2.44	2.34
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	60.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	85.00	65.00	60.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	92.50	92.50

* No market.

Farm Factors that Create Value - Farm products can be produced in a number of ways that create value in the minds of consumers. Animal production systems such as pork production that eliminate the use of antibiotics would be one example. Humane treatment in animal production systems, from reduced confinement to free range to careful handling and transporting, is another. Specific genetics can be used which improve the quality, appearance or eating characteristics of the meat. Crops likewise can be of certain genetic material, raised organically or produced to meet a food grade standard for a specific product.

Providing products for these markets can add to the income that producers receive. However, producer's need to be very aware of **1) who owns the attributes** that are being promoted. They must also consider **2) who is investing in the promotion** of these attributes and they should also analyze **3) who controls access to the consumer** of these attributes.

Often, these markets are driven by a limited number of consumers or buyers. Owning the attributes means the producers are controlling the quantity of a product. If they do not own the attributes being promoted, they need to realize supply can be increased quickly with the corresponding decrease in price. If access and promotion are in hands other than the producers, the individual producer will likely have less influence on the purchasing decision of the consumer. This is not to suggest producers must always control promotion and distribution to benefit. Producers do need to recognize the interdependency of the activities and those doing them. The more equal the interdependency or reliance on one another between the entities in a food chain, the greater the likelihood that value will be distributed equitably among the members of the chain. The faster the supply of a product increases, the less likely that the interdependency in the chain will remain static. Buyers will increasingly treat the product as a commodity if more and more producers supply that product and no one has propriety control of the attribute.

A better way for producers to benefit may be to first find a market for the product produced from the crops or livestock, and then work to fill that market. However, this requires an increased level of involvement in finding and developing such

markets. Producers will need to decide whether they are actually bringing something new to the consumer, or marketing an accepted commodity in a new and different way with attributes that make it likely to compete well with the commodities already present. Producers must decide what effort they can afford to expend on developing these activities. In the past, they have had to spend very little. However, one of the issues today is the increased effort required to secure a reliable outlet or a profitable price for traditional commodities.

Producers have a greater ability to locate markets should they decide to do so. Considerable time and effort is being expended at state and national levels to help producers with these activities. Producers have greater access to news and information. Turning that information into reliable new markets is more difficult.

Creating or Joining a Food Chain

Producers wanting to get a product to the consumer need to participate in or develop a food chain. Jean Kinsey[1] describes twelve groups of activities that need to happen to create a food chain. There may be different descriptions for activities and there may be some that should be added, but most activities fit under the twelve descriptions given.

The activities, not in any particular order or progression are:

1) Grow Crops, Raise Animals
2) Transport, Delivery
3) Process, Package, Cook
4) Aggregate, Store
5) Monitor Quality, Safety
6) Handle Waste, Environment
7) Manage, Train Labor
8) Adopt Technology
9) Transmit Information
10) Science, Research, Development and Analyze Data
11) Finance, Credit
12) Oversee Market & Economic Welfare

All twelve components are necessary. Producers need to identify which of the twelve tasks they can already accomplish, which task they can develop the ability to accomplish and which they should partner with others to accomplish. Once again, the ability to establish an interdependent relationship with others is likely to be the key to success.

Item nine (9) is a key activity[2] that producers may not have experience with in marketing a food product. Essentially these activities include everything from gathering data for feasibility of an idea/product to advertising the idea to partners, lenders and the public. While producers are familiar with production information analysis, gathering, processing and analyzing data on consumers and food products and then transmitting results to the rest of a food chain is not a process they are familiar with. However, communicating this information up and down the food chain will be a major component of success.

One way to gather information is to talk to a lot of people. This is not something the average producer may see as beneficial. The difference between successful talking and just talking is ***having a means to measure progress***. In sales the question is often not how much experience you have, but what kind of experience you have. If, in talking to buyers the producer has the same experience one hundred times, it is still basically one experience.

One method of getting additional experiences may be by ***"not selling your idea/product."*** Rather than "selling what you have," asking the buyer what they need, what sells best for them and what they would like to have that is different, is a means of getting multiple experiences out of contacts with buyers. This is a different process from the market analysis that is done before deciding what product to produce. In this case you are preparing the buyer for your explanation of how your idea/product will solve one or more of those issues.

If the item you produce fills a unique and specific need, it is a product as opposed to a commodity. An additional difference is that with a **product** you need to explain to a buyer how your product fills a need. Of course, if it doesn't fill any of the buyers needs, one of two explanations is likely to apply. One, this buyer is not part of the group of buyers that your data came from and, therefore, your product does not fit as a solution to their needs. An example might be a product that fits the needs of supermarket buyers but not the needs of food service buyers. Second, and ***likely more threatening***, is that your information of the needs described by the buyers is in some way inadequate. Examples might be, ***too few buyers in the sample used***, ***regional preferences that limit the application of the information***, ***bias in the way information was obtained*** and ***assumptions by yourself or others that were not tested and simply are not correct.*** Incorrect assumptions about consumer needs, wants and desires are one of the foremost reasons for business failure.

Given the challenges in creating new products and new companies to produce and deliver them to market, it might seem an impossible task. But it is done every day. People seek the variety of characteristics and new experiences they offer. Consumers constantly change preferences and provide opportunity in doing so.

For the long-term, producers need to find ways to own attributes that make their product unique. They need to own a larger interest in the processing systems that move their products to market and they need to be prepared for constant change. And producers need to realize, ***"No one ever said it would be easy."***

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[1] Kinsey, Jean, *The New Food Economy: Consumers, Farms, Pharms, and Science*, Unpublished paper presented at the Annual Meeting of the American Agricultural Economics Association, August 5-8, 2001.

[2] *Communication Gaps or Opportunities*?, Pork, Vol. 22, Number1, January, 2002