



# PLANNING FOR PROFIT



Province of British Columbia  
Ministry of Agriculture, Fisheries and Food

## Italian Ryegrass Pasture North Cariboo 1993 Season

Agdex 133-810

### Introduction

The planning process provides producers with the opportunity to look at their operation as a group of distinct enterprises. Alternative enterprises should be evaluated on the basis of **Contribution Margin**, taking into consideration resource constraints, market opportunity, risk, and uncertainty.

The **Contribution Margin** must provide funds for interest, overhead, and other indirect expenses as well as a return for living expenses, loan repayment, and investment. These items should be included in the overall farm plan which will include a **Projected Income Statement** and **Projected Cash Flow Statement**.

### Key Factors Affecting Profit

Target	
Quantity	3 Tons*/acre
Price	\$85/Ton
*AUM = 950 lbs. of Hay Equivalent	

It is essential to have a good irrigation and fertilizer program to provide adequate nutrients for optimum production. Grazing should be controlled to prevent overuse and ensure regrowth. Stocking rates need to be monitored, preferably on a rotation basis to ensure uniform utilization.

### Marketing Alternatives

Italian ryegrass pasture mixes have high quality and rapid regrowth, optimum for grazing sheep, cattle, or horses in a commercial grazing system. Italian ryegrass may also be marketed as hay or silage to producers feeding sheep, cattle or horses.

### Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc						5	20	20	15	10		
%Exp			15	35	15	10	10	10	10	5		

The above information indicates the timing of monthly flow of funds included in the Contribution Margin only. A complete **Projected Cash Flow** should include indirect expenses, capital sales and purchases, loans and personal expenses.

### Rules of Thumb

Direct Expense % of Income	30 - 40%
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The above indicators are provided for comparison purposes. They are set out as potential targets for Italian Ryegrass production.

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# ITALIAN RYEGRASS PASTURE

## Target Yield - 3 Tons/Acre

### Contribution Margin 1 Acre of Italian Ryegrass Pasture

Income	Yield*	Price	Unit	Income
Pasture	3.0	\$85.00	Ton	\$255.00

#### Direct Expenses

	Quantity	Price	Unit	Expense
<u>Seed</u>				
Barley	110	\$0.10	lb.	\$10.98
Italian Ryegrass	20	0.93	lb.	18.04
<u>Fertilizer</u>				
34-0-0-11	150	0.12	lb.	18.04
Fuel Costs				10.43
Machine Repair & Maintenance				12.72
Irrigation				18.51

**Total Direct Expenses \$89.27**

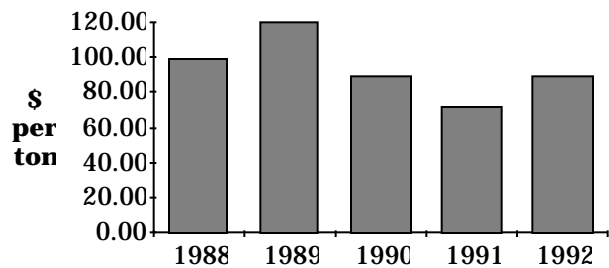
**Contribution Margin \$165.73**

\* 1 AUM = 950 lbs. of Hay Equivalent

### Buildings and Machinery Replacement Cost Total Farm Size - 2,400 Acres

Buildings	\$ 15,000
Power Machinery	50,000
Field Machinery	24,000
Irrigation	50,000
Small Tools & Other	8,000
Vehicle	<u>15,000</u>
<b>Total</b>	<b>\$162,000</b>

### Grass Hay Price Cariboo



### Contribution Margin - Sensitivity Analysis

The table below lists the changes to contribution margin as quantity of yield changes and price received varies.

Price \$/ton	Yield Tons per Acre			
	2.0	2.5	3.0	3.5
<b>75.00</b>	60.73	98.23	135.73	173.23
<b>80.00</b>	70.73	110.73	150.73	190.73
<b>85.00</b>	80.73	123.23	<u>165.73</u>	208.23
<b>90.00</b>	90.73	135.73	180.73	225.73

This information is provided as a guideline only. Target yield indicates above average production. An individual crop plan should be developed by each producer. Planning forms may be obtained from your local office of the B. C. Ministry of Agriculture, Fisheries and Food.