



PLANNING FOR PROFIT



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

Early Potatoes Fraser Valley Spring 1994

Agdex 161-810

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 Budget**.

Key Factors Affecting Profit

	Target
Quantity	7 tons/acre
Grade	100 % # 1

Margins improve with higher yields, better grades and early production. Certified seed should be used to improve both yield and grade.

Row cover materials can be used to achieve earlier production.

A "Vegetable Production Guide for Commercial Growers" is available from the B.C. Ministry of Agriculture, Fisheries and Food.

Marketing Alternatives

Potatoes are produced in southern B.C. under a delivery quota system which is controlled by the B.C. Vegetable Marketing Commission. Most of the production in the Lower Mainland is marketed through the B.C. Coast Vegetable Co-op Association. Prices usually peak early in the season and then decline into the summer months as imported and local main season potatoes arrive in the market.

Cashflow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc		20	20	20	20	20						
%Exp		25	25	25	25							

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

Investment	\$2,500 - \$3,000/acre
Labor	48 hrs/ acre
Direct Expense as % of Income	60% - 70%

The above indicators are provided for comparison purposes. They are set out as potential targets for early potato production.

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EARLY POTATOES

Target yield - 7 Tons/Acre

Contribution Margin 1 Acre of Early Potatoes Fraser Valley

Total Income				
	Yield	Price	Unit	Income
	7	\$532.55	ton	\$3,728

Direct Expenses				
	Quantity	Price	Unit	Expense

Crop Supplies and Service

Seed	.75	\$320	ton	\$240
Cover crop	.05	90	tonne	4

Fertilizer

12-20-20	.45	374	tonne	170
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Crop Protection

IPM				42
Fixed Copper (2X)	1.5	12.95	kg	39
Dithane M45 (2X)	.65	8.65	kg	11
Bravo	.75	14.20	litre	11
Gramoxone	1	21.60	litre	22
Lorox	1.8	23.70	litre	43
Topkill	3.4	24.90	litre	85

Labour	48	7.50	hour	360
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Marketing

Receiving	7	19.40	ton	136
Wash & Grade	7	22.00	ton	154
Packaging	7	62.40	ton	437
Marketing Fees	7	20.40	ton	143
Marketing Commission Fees				17

Fuel, Oil & Lube				127
Repairs & Maintenance				123
Irrigation				35
Crop Insurance				90

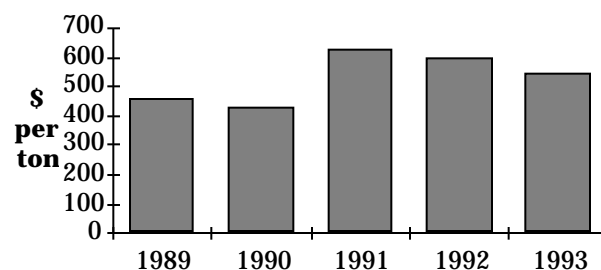
Total Direct Expenses				\$2,289
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Contribution Margin				\$1,439
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Buildings and Machinery Replacement Costs Total Farm Size - 160 acre

Buildings	\$65,000
Power Machinery	145,000
Field Machinery	59,700
Handling Equipment	14,000
Irrigation & Drainage	120,000
Vehicles	50,000
Small Tools, Fuel Tanks & Other	<u>6,500</u>
Total	\$460,200

Early Potat Prices



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			
	5	6	7	8
450	214	538	861	1,184
500	464	838	1,211	1,584
533	627	1,033	<u>1,439</u>	1,845
550	709	1,135	1,561	1,987

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.