



PLANNING FOR PROFIT



BRITISH
COLUMBIA

Ministry of Agriculture,
Fisheries and Food

**Fruit Pie Production
Fraser Valley
Fall 1996**

Agdex 211-710

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	
Production Efficiency	95%
Price	\$8.00/8" pie

This budget profiles an entry level, cottage size fruit pie producing operation. The costs which are included are made on the basis of this assumption.

The distance to market and the volume of sales at each market greatly affect the profitability of this scale of operation. Potential exists for entry level operations to produce more sophisticated products but higher packaging costs will be incurred in order to market these products successfully.

Marketing Alternatives

Small processors have the option of selling their products through their own farm stands or at local farmers' markets. The option also exists to sell a larger volume through local roadside stands and to restaurants for a lower than retail price.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc						10	20	30	20	20		
%Ex						20	10	30	20	20		

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 Expenses % of Income	35% - 45%
Production Labour	20 hours/100 pies
Marketing Labour	6 hours/100 pies

The above indicators are provided for comparison purposes. They are set out as potential targets for producing packaged, culinary herbs.

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FRUIT PIE PRODUCTION

Target Yield - 1,000 pies

Contribution Margin Cottage Production Scale Fraser Valley

Income

	Yield	Price	Unit	Income
Fruit Pies	1,000	\$8.00	each	\$8,000

Direct Expenses

	Quantity	Price	Unit	Expense
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Ingredients

Apples	2,105	\$0.25	lb	\$526
Sugar	277	0.36	lb	99
Spices	0.55	15	lb	8
Pastry	1,053	0.50	pie	526

Packaging

Plates	1,053	0.15	pie	158
Boxes	1,053	0.325	pie	368
Labels	1,053	0.14	pie	149

Fuel, Oil, Lubrication				449
Repair & Maintenance				307

Market Fees				250
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Contracts & Custom Work

Peeling apples	50	8.50	hour	425
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Hydro				34
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Total Direct Expenses				\$3,299
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Contribution Margin				\$4,701
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Buildings and Machinery Replacement Cost

Building	\$ 5,000
Storage	6,500
Peeler, Slicer/Corer	3,300
Bins	125
Other	<u>1,575</u>
Total	\$16,500

N.B. This assumes that existing home oven is used in this entry level processing enterprise.

The market for cottage industry produced fruit pies is a new one. Price trends are not currently available for the BC market.

Contribution Margin - Sensitivity Analysis

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

PRICE	Production Efficiency			
	80%	90%	95%	100%
6.00	1,636	2,168	2,701	2,981
7.00	2,436	3,068	3,701	4,034
8.00	3,236	3,968	4,701	5,086
9.00	4,036	4,868	5,701	6,1398

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 BC Ministry of Agriculture, Fisheries and Food.