



PLANNING FOR PROFIT



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

Fruit Leather Cottage Industry Scale Spring 1996

Agdex 274 - 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
Production Efficiency	95%
Marketing Efficiency	100%
Price	\$.20 - .30/15 g bar

This budget profiles an entry level, cottage size fruit leather operation which is an addition to an existing fruit operation. The costs which are included are made on the basis of this assumption.

Distance to market and volume of sales at each market greatly affects the profitability of this scale of operation. A well-run farm market is assumed to sell up to 5,000 fruit leather bars per season.

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 farmer's markets. The option also exists to sell a larger volume through local roadside stands and selected retailers for a lower than retail price.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc						10	40	40	10			
%Exp						15	20	25	25	15		

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	50 - 60%
Production Labour	3.5-3.7 hrs/1,000 bars
Marketing Labour	3.0-3.3 hrs/1,000 bars

The above indicators are provided for comparison purposes. They are set out as targets for fruit leather production on an entry level, cottage industry scale.

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FRUIT LEATHER

Entry Level Operation

Contribution Margin Cottage Production Scale Fruit Leather 1,000 bars (15 g each)

Income

	Yield	Price	Unit	Income
Retail Sales	200	\$.50 ¹	bar	\$100.00
Wholesale Sales	800	.25 ²	bar	<u>200.00</u>
Total Income				\$300.00

Direct Expenses

	Quantity	Price	Unit	Expense
<u>Ingredients</u>				
Base Fruit	238	\$.10	lb.	\$22.86
Flavour Fruit	39.7	.45	lb.	17.86
Honey	10	1.00	lb.	10.00
Lemon Juice	1	2.29	litre	2.29
<u>Packaging</u>				
Wrap	1,053 ³	.02	ea	21.06
Labels	1,053	.06	ea	63.18
Fuel, Oil & Lube				4.56
Machinery R & M				2.28
Tray Liners	1,053	.005	ea	5.28
Market Fees				7.94
Hydro				5.71
Water				1.89
Total Direct Expenses				\$164.91
Contribution Margin				\$135.09

1 This price is a retail price at the producer's own farm market or at a farmer's market.

2 This price is wholesale to other farm markets.

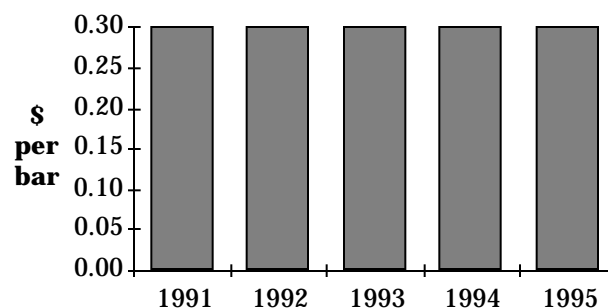
3 A 5% loss due to sampling and spoilage is assumed.

Equipment Replacement Cost

Food Preparation	\$3,325
Food Processing	1,400
Packaging Equipment	550
Small Tools & Misc. Equipment	<u>500</u>
Total	\$5,775

NB This table includes 3 large home dehydrators with a capacity of 17 sq. ft of drying space each.

Fruit Leather



Contribution Margin - Sensitivity Analysis

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

PRICE \$/bar	Efficiency			
	80%	90%	95%	100%
.15	(29.91)	(22.41)	(14.91)	(7.41)
.20	15.09	25.09	35.09	45.09
.30	105.09	120.09	135.09	150.09
.40	195.09	215.09	235.09	255.09

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.