



PLANNING FOR PROFIT



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

Jam Production Cottage Industry Scale Spring 1996

Agdex 270 - 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	\$2.75 - 3.00/250 ml jar

This budget profiles an entry level, cottage size jam processing 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. This budget assumes average sales of 40 jars/market at a round-trip distance of 30 km.

Potential exists for entry level operations to produce more sophisticated flavours and 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 at craft fairs 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						30	25	25	15	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	50 - 60%
Average Sales jars/market	40 - 50
Production Labour	80 hours/1,000 jars
Marketing Labour	80 hours/1,000 jars

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

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