



PLANNING FOR PROFIT



BRITISH
COLUMBIA

Ministry of Agriculture,
Fisheries and Food

**Hot Peppers
Okanagan Valley
Fall 1996**

Agdex 257 - 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	400 cases/acre
Price	\$11.00 - \$16.00/case

Peppers are a warm-temperature vegetable and requires a long growing season. There are no herbicides registered for use on peppers. Plastic mulch provides weed control and allows earlier planting and harvesting.

The "BC Vegetable Production Guide" provides variety and other production recommendations.

Marketing Alternatives

Pepper growers can sell through a broker or directly to wholesalers. There are no grade standards in effect for peppers. Peppers are usually sold in 30 lb. cases. Investigate and develop marketing options prior to planting.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc							15	50	35			
%Ex			15	20	5	15	20	35				

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

Rules of Thumb

Investment	\$6,000 - \$7,000/acre
Direct Expense % of Income	60% - 70%

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

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HOT PEPPERS

Target Yield - 400 cases/acre

Contribution Margin 1 Acre of Hot Peppers Okanagan Valley

Total Income

	Yield	Price	Unit	Income
Peppers	400	\$14.00	case	\$5,600

Direct Expenses

	Quantity	Price	Unit	Expense
Plants	8,000	\$0.18	each	\$1,440

Plant Nutrients

21-0-0-24	22.7	\$0.28	kg	7
12-51-0	200	0.55	kg	110
19-18-19	18	0.40	kg	7

Pest Control

Ambush (2X)	0.056	126.95	litre	14
Thiodan	0.6	14.85	litre	9
Fixed Copper	0.9	9.70	kg	9

Fuel, Oil, Lubrication				67
Machinery R & M				58

Marketing

Marketing Costs				300
Cartons	400	1.25	each	500

Contracts & Custom Work

Plant	9.5	9.20*	hour	87
Harvest	50	9.20	hour	460
Sort & Pack	50	9.20	hour	460

Total Direct Expenses **\$3,528**

Contribution Margin **\$2,072**

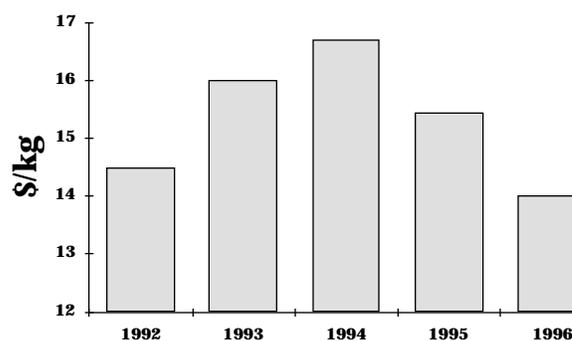
*includes UIC, CPP, etc.

Buildings and Machinery Replacement Cost Total Farm Size - 20 Acres

Buildings	\$ 7,500
Power Machinery	32,000
Field Machinery	50,500
Irrigation	16,000
Vehicles	23,000
Small tools & Other	<u>5,000</u>

Total **\$134,000**

Hot Pepper Prices



Contribution Margin - Sensitivity Analysis

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

PRICE \$/case	Yield cases per acre			
	300	350	400	450
10.00	(413)	29	472	914
12.00	187	729	1,272	1,814
14.00	787	1,429	2,072	2,714
16.00	1,387	2,129	2,872	3,614

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.